

AUDITOR/CONTROLLER-RECORDER COUNTY CLERK



COUNTY OF SAN BERNARDINO

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LARRY WALKER
Auditor/Controller-Recorder
County Clerk

ELIZABETH A. STARBUCK
Assistant Auditor/Controller-Recorder
Assistant County Clerk

January 6, 2005

BOARD OF SUPERVISORS

County Government Center
385 North Arrowhead Avenue, Fifth Floor
San Bernardino CA 92415-0110

Enclosed are copies of the audit reports prepared by the Internal Audits Section and external auditing firms, for the quarter ending December 31, 2004.

Respectfully submitted,

Larry Walker
AUDITOR/CONTROLLER-RECORDER

By: _____
Howard M. Ochi
Chief Deputy Auditor

LDW:HO:dlp

Attachments (5)



AUDIT REPORTS

**PREPARED BY INTERNAL AUDITS SECTION
AND OUTSIDE AUDIT AGENCIES**

FOR THE QUARTER ENDING

DECEMBER 31, 2004

Office of

AUDITOR/CONTROLLER-RECORDER

DEPARTMENTS

FISCAL GROUP

Treasurer/Tax Collector Interest Apportionment
Treasurer's Investments Audit September 10, 2003

SPECIAL DISTRICTS

CSA's

County Service Area 70, Zone R-40, Upper North Bay Lake Arrowhead

FIRE PROTECTION DISTRICT

Monte Vista Fire Protection District

PARK AND RECREATION DISTRICT

Bloomington Park and Recreation District

JPA'S AND OTHERS

Agua Mansa Industrial Growth Association
Local Agency Formation Commission
Water and Sanitation Division Management Letter

***The following audit reports performed by external firms are on file at
the following location:***

***Auditor/Controller-Recorder
Internal Audits Section
222 West Hospitality Lane, 4th Floor
San Bernardino. CA 92415-0018
Contact: _____ (909) 386-_____***

AUDITS PERFORMED BY EXTERNAL FIRMS

GRANTS

District Attorney's Office Workers' Compensation Insurance Fraud Program
District Attorney's Office Elder Abuse Vertical Prosecution Program Grant,
Contract #EB02010360
District Attorney's Office Automobile Insurance Fraud Program Grant
District Attorney's Office Organized Automobile Fraud Activity Interdiction
Program Grant (Urban Grant)
District Attorney's Office Spousal Abuser Prosecution Program Grant
District Attorney's Office Vertical Prosecution Program Grant,
Contract #VB3010360
District Attorney's Office Victim/Witness Assistance Program Grant

GRANTS - Continued

Program Grant (Urban Grant)
District Attorney's Office Spousal Abuser Prosecution Program Grant
District Attorney's Office Vertical Prosecution Program Grant,
Contract #VB3010360
District Attorney's Office Victim/Witness Assistance Program Grant,
Contract #VW0322Q0360
Probation Department High Desert Juvenile Detention and Assessment
Facility Grant, Grant Contract #052-00
Sheriff's Department 2000/01 Mentally Ill Offender Crime Reduction Grant
Sheriff's Department Mentally Ill Defender Crime Reduction Grant

AUDITS PERFORMED BY EXTERNAL FIRMS – Continued

SPECIAL DISTRICTS

County Service Area 9 - Phelan
County Service Area 17 – Apple Valley
County Service Area 18 – Cedarpines Park
County Service Area 20 – Joshua Tree
County Service Area 29 – Lucerne Valley
County Service Area 30 – Red Mountain
County Service Area 38 – County Fire
County Service Area 40 – Elephant Mountain
County Service Area 42 – Oro Grande
County Service Area 54 – Crest Forest
County Service Area 56 – Wrightwood and Zone F-1 Pinon Hills
County Service Area 59 – Deer Lodge
County Service Area 63 – Yucaipa and Oak Glen
County Service Area 68 – Valley of the Moon
County Service Area 69 – Lake Arrowhead
County Service Area 70 – Countywide
County Service Area 70 – Consolidated Fire
County Service Area 70 – Zones B and C
County Service Area 70 – Zone D-1 – Arrowhead Dam
County Service Area 70 – Zone F Morongo Valley
County Service Area 70 – Zone G, L and L-1
County Service Area 70 – Zone FP1 – Windy Acres
County Service Area 70 – Zone HL – Havasu Lake
County Service Area 70 – Zone J

AUDITS PERFORMED BY EXTERNAL FIRMS -*Continued*

SPECIAL DISTRICTS - *Continued*

County Service Area 70 – Zone M – Wonder Valley
County Service Area 70 – Zone OS-1 – North Etiwanda Fontana Open
County Service Area 70 – Zone PM1 – Lake Arrowhead Paramedic
County Service Area 70 – Zone P-6 – El Mirage Park
County Service Area 70 – Zone P-8 – Fontana Park
County Service Area 70 – Zone P-9 – Fontana
County Service Area 70 – Zone P-10 – Mentone
County Service Area 70 – Zone R-2 – Twin Peaks
County Service Area 70 – Zone R-3 – Erwin Lake
County Service Area 70 – Zone R-4 – Cedar Glen
County Service Area 70 – Zone R-5 – Sugarloaf
County Service Area 70 – Zone R-7 – Lake Arrowhead
County Service Area 70 – Zone R-8 – Riverside Terrace
County Service Area 70 – Zone R-9 – Rim Forest
County Service Area 70 – Zone R-11 – Running Springs/Preston
County Service Area 70 – Zone R-12 – Baldwin Lake
County Service Area 70 – Zone R-13 – Arrowhead North Shore
County Service Area 70 – Zone R-15 – Landers
County Service Area 70 – Zone R-16 – Running Springs
County Service Area 70 – Zone R-19 – Copper Mountain
County Service Area 70 – Zone R-20 – Flamingo Heights
County Service Area 70 – Zone R-21 – Mountain View
County Service Area 70 – Zone R-22 – Twin Peaks
County Service Area 70 – Zone R-23 – Mile High Park
County Service Area 70 – Zone R-25 – Lucerne Valley
County Service Area 70 – Zone R-26 – Yucca Mesa
County Service Area 70 – Zone R-28 – Joshua Tree
County Service Area 70 – Zone R-29 – Yucca Mesa
County Service Area 70 – Zone R-30 – Verdemont
County Service Area 70 – Zone R-31 – Lytle Creek
County Service Area 70 – Zone R-33 – Big Bear City
County Service Area 70 – Zone R-34 – Big Bear
County Service Area 70 – Zone R-35 – Cedar Glen
County Service Area 70 – Zone R-36 – Pan Springs
County Service Area 70 – Zone R-37 – Chino (Road)
County Service Area 70 – Zone R-39 – Highland Estates (Phelan)
County Service Area 70 – Zone S-3
County Service Area 70 – Zone SP-2 – High Country
County Service Area 70 – Zone TV-2 – Morongo Valley
County Service Area 70 – Zone TV-4 – Wonder Valley
County Service Area 70 – Zone TV-5 – Mesa Translator
County Service Area 70 – Zone W – Hinkley
County Service Area 70 – Zone W-1
County Service Area 70 – Zone W-3 – Hacienda Heights

County Service Area 70 – Zone W-4 – Pioneer Town
County Service Area 73 – Arrowbear Lake
County Service Area 77 – Mariana Ranchos
County Service Area 82 – Searles Valley
County Service Area No. SL-1 – Street Lighting

AUDIT REPORT
TREASURER/TAX COLLECTOR
INTEREST APPORTIONMENT
FOR THE FISCAL YEAR ENDING
JUNE 30, 2004

Prepared By:

Internal Audits Section
Office of the Auditor/Controller-Recorder
October 6, 2004

TREASURER/TAX COLLECTOR INTEREST APPORTIONMENT

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LARRY WALKER
Auditor/Controller-Recorder
County Clerk

ELIZABETH A. STARBUCK
Assistant Auditor/Controller-Recorder
Assistant County Clerk

October 6, 2004

RICHARD LARSEN
Treasurer/Tax Collector
172 West Third Street
San Bernardino, CA 92415-0360

SUBJECT: AUDIT OF FISCAL YEAR JUNE 30, 2004 INTEREST APPORTIONMENT

Introductory Remarks

In compliance with Article V, Section 6 of the San Bernardino County Charter and the Board of Supervisor's Policy Statement on Internal Operational Auditing, we have completed an audit of the interest apportionments by the San Bernardino County Treasurer's Office for the fiscal year ending June 30, 2004.

In fiscal year 1997/98, an error was discovered in the way the computer program processed the interest apportionment. The Treasurer-Tax Collector determined that the error resulted in misallocation of interest. On July 1, 1999, the Treasurer-Tax Collector implemented the correction process to pay back interest that was due to certain funds and recover interest overpaid to other funds. This process was to be completed by June 30, 2004 but currently some districts have remaining balances and are still paying the County the outstanding interest. We did not audit the interest correction payback amounts. An independent analysis was performed by Vavrinek, Trine, Day & Co., LLP whose report was furnished to us.

Scope of Audit

Our audit was made in accordance with generally accepted auditing standards and included such tests, as we considered necessary in the circumstances. Those tests were not designed for nor would they necessarily disclose material weaknesses in the internal controls. Specifically, we examined the following areas:

- A. Apportionment of interest received among various funds before consideration of interest correction payback.

B. Accrual of interest earned but not yet received as of June 30, 2004.

Results of Audit

The attached Summary of Apportioned Interest (Schedule 1) presents fairly the total amount of interest received and disbursed and the interest earned but not yet received by the San Bernardino County Treasurer for the four quarters of fiscal year June 30, 2004. Schedules 2 and 3 are presented for informational purposes only.

Respectfully submitted,

Larry Walker
Auditor/Controller-Recorder

By: Barbara K. Redding, CPA, CGFM
Internal Audits Manager

Quarterly Copies to:

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Board of Supervisors
Grand Jury (2)
Audit File (3)

Date Report Distributed: 12/15/04

LDW:BKR:dlp.2

Schedule 1

**County of San Bernardino
Treasurer/Tax Collector
Summary of Apportioned Interest
For the Fiscal Year Ended 6/30/04**

Interest Received and Disbursed

<u>Col. 1</u>	<u>Col. 2</u>	<u>Col. 3</u>	<u>Col. 4</u>	<u>Col. 5</u>	<u>Col. 6</u>
<u>Quarter Ended</u>	<u>Average Daily Balance</u>	<u>Quarterly Interest Received</u>	<u>Treasurer's Cost</u>	<u>Quarterly Interest Disbursed (Col.3-Col.4)</u>	<u>Net Interest Factor (Col.5/Col. 2)</u>
9/30/2003	\$ 2,545,390,912	\$ 14,332,372	\$ 438,278	\$ 13,894,094	0.545853053%
12/31/2003	2,543,214,234	13,056,462	438,278	12,618,184	0.496151045%
3/31/2004	2,653,915,510	13,412,845	438,278	12,974,567	0.488883951%
6/30/2004	2,928,449,523	12,652,035	408,938	12,243,097	0.418074374%
Yearly Totals	\$ 10,670,970,179	\$ 53,453,714	\$ 1,723,772	51,729,942	1.948962422%
Averages	\$ 2,667,742,545				0.484772623%

Allocations By Fund Types

School Funds:	
General	\$ 27,993,918
Debt Service	854,991
Total Schools	28,848,909
Special Districts and Agency	16,352,553
County General Fund	6,528,481
Total Allocation	\$ 51,729,943

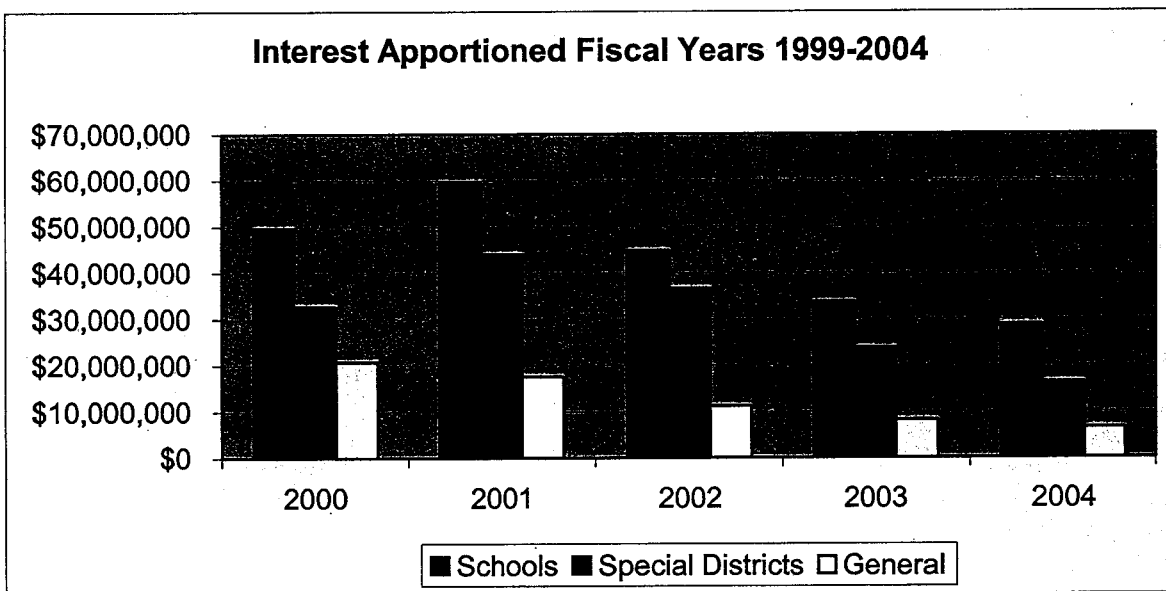
Accrual Allocation Percentage

Fourth Quarter Interest Earned but not yet received (accrual)
Fourth Quarter Interest Disbursed

$$\frac{\$959,605}{12,243,097} = \underline{\underline{7.83792892\%}}$$

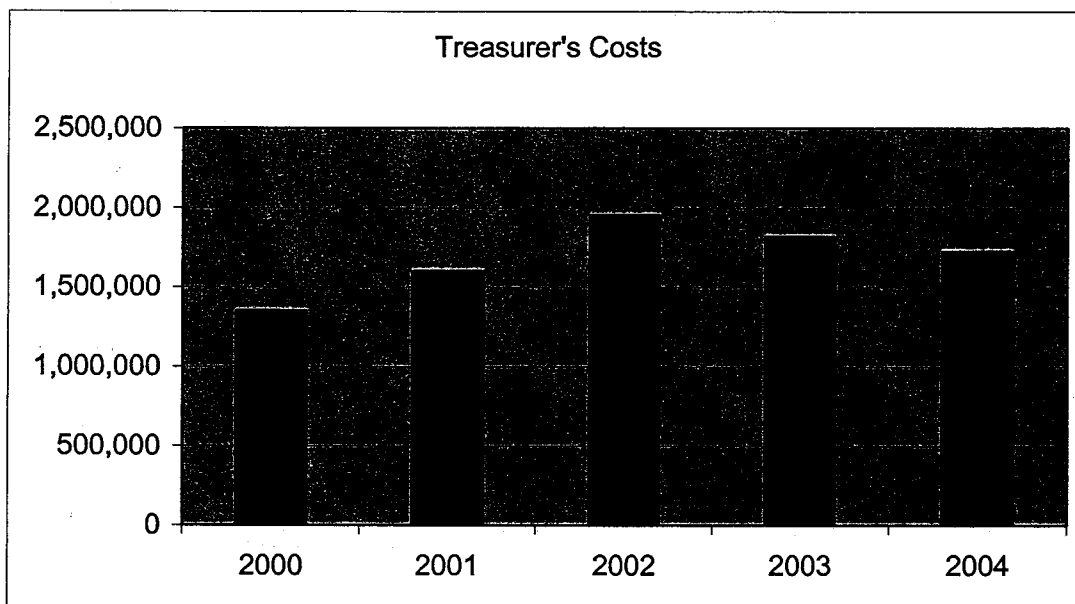
**County of San Bernardino
Treasurer/Tax Collector
Five Year Summary of Apportioned Interest
By Fund Type
For the Fiscal Year Ended 6/30/04**

Fund Type	FYE 6/30/2000	FYE 6/30/2001	FYE 6/30/2002	FYE 6/30/2003	FYE 6/30/2004
Schools	\$49,528,566	\$59,575,862	\$44,864,416	\$33,723,946	\$28,848,909
Special Districts	32,704,957	43,984,051	36,686,912	23,867,604	\$16,352,553
General Fund	20,801,755	17,620,615	11,199,014	8,162,379	\$6,528,481
Total	\$103,035,278	\$121,180,528	\$92,750,342	\$65,753,929	\$51,729,943



**County of San Bernardino
Treasurer/Tax Collector
Five Year Summary of Treasurer/Tax Collector Costs
For the Fiscal Year Ended 6/30/04**

	FYE 6/30/2000	FYE 6/30/2001	FYE 6/30/2002	FYE 6/30/2003	FYE 6/30/2004
Treasurer/ Tax Collector Costs	<u>\$1,349,994</u>	<u>\$1,600,144</u>	<u>\$1,955,737</u>	<u>\$1,816,361</u>	<u>\$1,723,772</u>



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LARRY WALKER
Auditor/Controller-Recorder
County Clerk

ELIZABETH A. STARBUCK
Assistant Auditor/Controller-Recorder
Assistant County Clerk

February 20, 2004

Richard Larsen, Treasurer-Tax Collector
172 W. Third Street, First Floor
San Bernardino, CA 92415-0360

SUBJECT: TREASURER'S INVESTMENTS AUDIT SEPTEMBER 10, 2003

Introductory Remarks

In accordance with California Government Code Sections 26920 and 26922 and County Board of Supervisor's resolution dated July 6, 1971, we have completed a reconciliation of the Treasurer's Cash Book as of September 10, 2003. In addition, we evaluated investments for compliance with California Government Code Section 53601, "Securities Authorized for Investment" and with the Treasurer's Investment Policy.

Scope of Audit

We audited selected financial transactions, operations, procedures, and controls in effect over cash and investments. Our audit was made in accordance with generally accepted auditing standards and included such tests of the records and other auditing procedures as we considered necessary in the circumstances.

Audit Results

Cash and investments of \$2,517,041,458 as stated in the Treasurer's cashbook at September 10, 2003 reconciled to supporting documentation in all material respects. There were no instances of non-compliance noted in the evaluation of compliance with California Government Code Section 53601 and the Treasurer's Investment Policy.

Our study and evaluation, made for the limited purpose described above, would not necessarily disclose material weaknesses in internal controls. Nothing came to our attention that indicated procedures and controls are not materially adequate.

Audrpt\Treasurer Cash Count
Richard Larsen, Treasurer-Tax Collector
February 20, 2004
Page 2 of 2

Respectfully submitted,

Larry Walker
Auditor/Controller-Recorder

By: Carol Lombard
Carol Lombard, Internal Auditor II
Internal Audits Section

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Date Report Distributed: 10/4/2004

LDW:BKR:CL:spr.1

COUNTY OF SAN BERNARDINO
CALIFORNIA
SPECIAL DISTRICTS
AUDIT REPORT
COUNTY SERVICE AREA No. 70
ZONE R – 40
UPPER NORTH BAY LAKE ARROWHEAD
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

Prepared by:

Internal Audits Section
Office of the Auditor/Controller-Recorder
September 30, 2004

**County of San Bernardino Special Districts
CSA 70 Zone R – 40 Upper North Bay Lake Arrowhead**

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Auditor/Controller-Recorder
County Clerk

ELIZABETH A. STARBUCK
Assistant Auditor/Controller-Recorder
Assistant County Clerk

Independent Auditor's Report

September 30, 2004

Tom Sutton, Director
Office of Special Districts
157 West Fifth Street, Second Floor
San Bernardino, CA 92415-0450

**SUBJECT: AUDIT OF SAN BERNARDINO COUNTY SERVICE AREA NO. 70
 ZONE R – 40, UPPER NORTH BAY LAKE ARROWHEAD FOR THE
 FISCAL YEAR ENDED JUNE 30, 2004**

Introductory Remarks

In compliance with Section 26909 of the California Government Code, we have completed an audit of the County Service Area No. 70, Zone R – 40 for the fiscal year ended June 30, 2004.

Auditor's Report

We have audited the accompanying financial statements of the governmental activities and the remaining aggregate information of the County of San Bernardino's County Service Area No. 70 Zone R-40, (CSA) a component unit of the County of San Bernardino, California, as of and for the year ended June 30, 2004, which collectively comprise the CSA's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the CSA's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the minimum audit requirements and reporting guidelines for California Special Districts required by the Office of the State Controller. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit

includes examining, on test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as, evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, and the remaining aggregate fund information of the CSA as of June 30, 2004, and the respective changes in financial position for the year ended in conformity with accounting principles generally accepted in the United States of America as well as accounting systems prescribed by the State Controller's Office and the state regulations governing Special Districts.

The accompanying budgetary comparison information on page 18 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The CSA has not presented the *Management's Discussion and Analysis* that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Larry Walker
Auditor/Controller-Recorder

By: _____
Barbara K. Redding, CPA, CGFM
Internal Audits Manager

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Date Report Distributed: 12/13/04

**County of San Bernardino
County Service Area No. 70 Zone R-40
Upper North Bay Lake Arrowhead
Statement of Net Assets
June 30, 2004**

ASSETS

Current assets:

Cash and cash equivalents	\$ 12,067
---------------------------	-----------

Noncurrent assets:

Capital assets: land and infrastructure	240,095
---	---------

Accumulated depreciation	(16,127)
--------------------------	----------

Total assets	<u>\$ 236,035</u>
--------------	-------------------

LIABILITIES

Current liabilities:

Due to other governments	1,950
--------------------------	-------

Noncurrent liabilities:

Loans payable	35,979
---------------	--------

Total liabilities	<u>\$ 37,929</u>
-------------------	------------------

NET ASSETS

Invested in capital assets, net of related debt	187,989
---	---------

Unrestricted	10,117
--------------	--------

Total net assets	<u>198,106</u>
------------------	----------------

Total Liabilities and Net Assets	<u>\$ 236,035</u>
----------------------------------	-------------------

The accompanying notes are an integral part of these financial statements.

County of San Bernardino
County Service Area No. 70 Zone R-40
Upper North Bay Lake Arrowhead
Statement of Activities
For the Fiscal Year Ended June 30, 2004

EXPENSES

Salaries	\$ 955
Services and supplies	3,035
Depreciation	6,002
Interest	488
Other expense	406
Total expenses	<u>10,886</u>

PROGRAM REVENUES

Special assessments	<u>17,500</u>
Net program expense	<u>6,614</u>

GENERAL REVENUES

Property taxes	183
Interest	141
Operating transfer out	<u>(15)</u>
Total general revenues	<u>309</u>

Change in Net Assets 6,923

Net Assets - beginning (restated) 191,183

Net Assets - ending \$ 198,106

The accompanying notes are an integral part of these financial statements.

County of San Bernardino
County Service Area No. 70 Zone R-40
Upper North Bay Lake Arrowhead
Balance Sheet
June 30, 2004

ASSETS

Cash and cash equivalents	\$ 12,067
Total assets	<u>\$ 12,067</u>

LIABILITIES AND FUND BALANCES

Liabilities	
Due to other governments	\$ 1,950
Loans payable	<u>35,979</u>
Total liabilities	<u>37,929</u>

Fund Balances:

Unreserved	<u>(25,862)</u>
Total fund balances	<u>(25,862)</u>

Total liabilities and fund balances	<u>\$ 12,067</u>
-------------------------------------	------------------

Total fund balances - governmental fund \$ (25,862)

Amounts reported for *governmental activities* in the statement of net assets are different because:

Long-term liabilities applicable to the County's governmental activities are not due and payable in the current period and, accordingly, are not reported as fund liabilities. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities - both current and long-term - are reported in the statement of net assets.

Improvements to land	<u>223,968</u>
----------------------	----------------

Net assets of governmental fund	<u>\$ 198,106</u>
---------------------------------	-------------------

**County of San Bernardino
County Service Area No. 70 Zone R-40
Upper North Bay Lake Arrowhead
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Fiscal Year Ended June 30, 2004**

REVENUES

Property taxes	\$ 183
Special assessments	17,500
Total revenue	<u>17,683</u>

EXPENDITURES

Salaries	955
Services and supplies	3,035
Interest expenses	753
Total expenditures	<u>4,743</u>

Excess (deficiency) of revenues over expenditures	<u>12,940</u>
---	---------------

OTHER FINANCING SOURCES (USES)

Transfer out	(15)
Total other financing sources (uses)	<u>(15)</u>

Net change in fund balance	12,925
----------------------------	--------

Fund balances - beginning (restated)	(38,787)
--------------------------------------	----------

Fund balances - ending	<u>\$ (25,862)</u>
------------------------	--------------------

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance to Statement of Activities.

Net Change in fund balances - total governmental funds	\$ 12,925
--	-----------

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds do not report depreciation. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	(6,002)
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Change in net assets governmental activities	<u>\$ 6,923</u>
--	-----------------

The accompanying notes are an integral part of these financial statements.

County of San Bernardino
County Service Area No. 70 Zone R-40 Upper North Bay Lake Arrowhead
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting entity

The County Service Area No. 70 Zone R-40 Upper North Bay Lake Arrowhead (CSA) is a special district located within the County of San Bernardino. The CSA has governmental powers as established by the San Bernardino County Government Charter (County). The County was established in 1852 as a legal subdivision of the State of California.

The CSA was established by an act of the Board of Supervisors (Board) of the County on March 20, 2001 with the active powers of maintaining and constructing road improvements. Currently, the governmental reporting entity provides road maintenance for a 0.6 miles of roadway on the Upper North Bay of Lake Arrowhead.

The CSA is a component unit of the County. Component units are legally separate organizations for which the Board is financially accountable or other organizations whose nature and significant relationship with the County are such that exclusion would cause the County's financial statements to be misleading or incomplete. Financial accountability is defined as the appointment of a voting majority of the component unit's board, and either (i) the County has the ability to impose its will on the organization, or (ii) there is potential for the organization to provide a financial benefit to or impose a financial burden on the County.

The accompanying financial statements reflect only the accounts of the CSA and are not intended to present the financial position of the County taken as a whole.

Government-wide and fund financial statements

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the reporting entity. As a general rule, the effect of inter-fund activity has been eliminated from the government-wide financial statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment.

County of San Bernardino
County Service Area No. 70 Zone R-40 Upper North Bay Lake Arrowhead
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*Continued*)

Government-wide and fund financial statements

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Separate financial statements are provided for governmental funds, proprietary and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Currently, the CSA does not have any proprietary or fiduciary fund types. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting* as are the proprietary fund financial statements. Revenues, are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing or related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. However, for revenue derived from voluntary non-exchange transactions, such as taxes and federal and state grants, the County expanded its definition of "available" to 9 months. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

**County of San Bernardino
County Service Area No. 70 Zone R-40 Upper North Bay Lake Arrowhead
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2004**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*Continued*)

Measurement focus, basis of accounting, and financial statement presentation

Property taxes are considered to be susceptible to accrual and have been recognized as revenues in the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The government's primary operating fund is a special revenue fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. The fund provides road maintenance services for the CSA.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

Cash and cash equivalents

Cash and cash equivalents are defined as cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Cash and cash equivalents include the cash balances of substantially all funds, which are pooled and invested by the County Treasurer to increase interest earnings through investment activities.

Investment activities are governed by the California Government Code Sections 53601, 53635, and 53638 and the County's Investment Policy. Authorized investments include U. S. Government Treasury and Agency securities, bankers' acceptances, commercial paper, medium term notes, mutual funds, repurchase agreements, and reverse repurchase agreements.

**County of San Bernardino
County Service Area No. 70 Zone R-40 Upper North Bay Lake Arrowhead
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2004**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*Continued*)

Cash and cash equivalents continued:

Interest income, and realized gains and losses earned on pooled investments are deposited quarterly to the District's accounts based upon the District's average daily deposit balances during the quarter. Unrealized gains and losses of the pooled investments are distributed to the District annually. Cash and cash equivalents are shown at fair value as of June 30, 2004.

Property taxes

Secured property taxes are levied in two equal installments, November 1 and February 1. They become delinquent with penalties on December 10 and April 10, respectively. The lien date is January 1 of each year. Unsecured property taxes are due on the March 1 lien date and become delinquent with penalties on August 31.

Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Capital assets

Capital assets, which include property, plant and equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (for improvements to land and structures and equipment) and have an estimated useful life in excess of one (1) year. Structures with an initial cost of \$100,000 are considered capital assets. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

County of San Bernardino
County Service Area No. 70 Zone R-40 Upper North Bay Lake Arrowhead
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital assets continued:

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the government are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Infrastructure	40
Structures & improvements	5 – 45
Equipment and vehicles	6 – 15
Utility Plant in Service	45

Stewardship, compliance and accountability

A. Budgetary information

In accordance with provisions of Section 29000 - 29143 of the Government code of the State of California, commonly known as the County Budget Act, the District prepares and adopts a budget on or before August 30 for each fiscal year.

Budgets are prepared on the modified accrual basis of accounting. The legal level of budgetary control is the object level and the sub-object level for capital assets within each fund.

Amendments or transfers of appropriations between funds or departments must be approved by the Board. Transfers at the sub-object level or cost center level may be done at the discretion of the Special District's Administration Department head. Any deficiency of budgeted revenues and other financing sources over expenditures and other financing uses is financed by beginning available fund balances as provided for in the County Budget Act.

B. Encumbrances

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be re-appropriated and honored during the subsequent year.

County of San Bernardino
County Service Area No. 70 Zone R-40 Upper North Bay Lake Arrowhead
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 2: CAPITAL ASSETS

The costs of building and acquiring capital assets (land, buildings, vehicles and equipment and infrastructure) financed from the governmental funds are reported as expenditures in the year they are incurred, and the assets do not appear on the balance sheet. However, the statement of net assets includes those capital assets among the assets of the CSA as a whole, and their original costs are expensed annually over their useful lives. All governmental assets and depreciation are from the road maintenance activity.

Capital asset activity for governmental activities for the year ended June 30, 2004 follows:

	Balance at June 30, 2003	Additions	Deletions	Balance at June 30, 2004
Governmental activities				
<i>Capital assets being depreciated:</i>				
Infrastructure-roadway	\$180,000	\$60,095	\$ -	\$240,095
Construction in progress	60,095	-	60,095	-
Total capital assets being depreciated	240,095	60,095	60,095	240,095
 Less accumulated depreciation for:				
Infrastructure-roadway	10,125	6002	-	16,127
Total accumulated depreciation	10,125	6002	-	16,127
Total capital assets being depreciated, net	229,970	-	-	223,968
 Total net capital assets	\$229,970	\$ -	\$ -	\$223,968

**County of San Bernardino
County Service Area No. 70 Zone R-40 Upper North Bay Lake Arrowhead
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2004**

NOTE 3: LOANS PAYABLE

On July 15, 2002, the CSA entered into a \$60,000 revolving loan agreement with the County for its roadway. The interest rate is variable, and is based upon the Treasurer's quarterly interest apportionment rate. The loan has flexible payment terms and repayment is expected by June 30, 2009.

Loans Payable

LOAN PAYABLE BEGINNING BALANCE @ 7/1/03	\$ (51,991.00)
PAYMENT ON 11/13/03	16,012.27
LOAN PAYABLE END BALANCE @ 6/30/04	<u>\$ (32,978.73)</u>
CURRENT PORTION DUE WITHIN ONE YEAR	9,500.00

NOTE 4: RETIREMENT PLAN

Plan description

The San Bernardino County Employees' Retirement Association (SBCERA) is a cost-sharing multiple-employer defined benefit pension plan (Plan) operating under the California County Employees Retirement Act of 1937 (1937 Act). The Plan provides retirement, death, and disability benefits to members. Although legally established as a single employer plan for the County of San Bernardino, which includes the CSA, the organizations listed below were added later:

City of Big Bear Lake
City of Chino Hills
California State Association of Counties
San Bernardino County Law Library
Crest Forest Fire Protection District
Mojave Desert Air Quality Management District (MDAQMD)
South Coast Air Quality Management District (AQMD)
Local Agency Formation Commission (LAFCO)

The CSA and others covered under the Plan are collectively referred to as the "Participating Members". The Plan is governed by the San Bernardino Board of Retirement under the 1937 Act. The Board acts as a fiduciary agent for the accounting and control of member and employee contributions and investment income. Employees become eligible for membership on their first day of regular employment and become fully vested after 5 years. SBCERA issues a stand-alone financial report, which may be obtained by contacting the Board of Retirement, 348 W Hospitality Lane - 3rd floor, San Bernardino, California 92415-0014.

County of San Bernardino
County Service Area No. 70 Zone R-40 Upper North Bay Lake Arrowhead
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 4: RETIREMENT PLAN (*Continued*)

Funding policy

Participating members are required by statute (Sections 31621, 31621.2 and 31639.25 of the California Government Code) to contribute a percentage of covered salary based on certain actuarial assumptions and their age at entry to the Plan. Employee contribution rates vary according to age and classification (general or safety). Members are required to contribute 8.36% - 13.46% of their annual covered salary of which the County pays approximately 7%. All employers combined are required to contribute 8.90% of the current year covered payroll. Employee contribution rates are established and may be amended pursuant to Articles 6 and 6.8 of the 1937 Act. Employer rates are determined pursuant to Sections 31453 of the 1937 Act. The District's retirement contributions are included in the County's prepaid pension costs. For 2004, the County's annual pension costs can be determined by obtaining a copy of its Comprehensive Annual Financial Report by contacting the Board of Retirement, 348 W. Hospitality Lane, 3rd Floor, San Bernardino, CA 92415-0014.

NOTE 5: SELF INSURANCE

The District is insured through the County's self-insurance programs for public liability, property damage, unemployment insurance, employee dental insurance, hospital and medical malpractice liability, and workers' compensation claims. Public liability claims are self-insured for up to \$1 million per occurrence. Excess insurance coverage over the Self-Insured Retention (SIR) up to \$30 million is provided through a Risk Pool Agreement with California State Association of Counties (CSAC) Excess Insurance Authority (EIA) Liability Program II. Workers' compensation claims are self-insured up to \$2 million per occurrence, and covered by CSAC EIA for up to \$10 million for employer's liability, and up to \$50 million for workers' compensation per occurrence. Property damage claims are insured on an occurrence basis over a \$25,000 deductible, and insured with CSAC EIA Property Program.

The County supplements its self-insurance for medical malpractice claims with CSAC EIA, which provides annual coverage on a claim made form basis with a SIR of \$1 million for each claim. Maximum coverage under the policy is \$11.5 million per claim with an additional \$18.5 million in limits provided by the CSAC EIA General Liability II Program.

All public officials and County employees are insured under a blanket Comprehensive Disappearance, Destruction, and Dishonesty policy covering County monies and securities, also with CSAC EIA with a \$100,000 deductible, and excess limits up to \$10 million per occurrence.

County of San Bernardino
County Service Area No. 70 Zone R-40 Upper North Bay Lake Arrowhead
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 5: SELF INSURANCE (Continued)

The activities related to such programs are accounted for in the Risk Management Fund (an Internal Service Fund) except for unemployment insurance, and employee dental insurance, which are accounted for in the General Fund. The liabilities included in the Risk Management Fund are based upon the results of actuarial studies, and include amounts for claims incurred but not reported, and allocated loss adjustment expenses. The liabilities for these claims are reported using a discounted rate of 5.00%. It is the County's practice to obtain actuarial studies at least biennially.

The County has a risk management investment program agreement with the Bank of New York to finance the self-insured general liability, automobile liability, workers' compensation, and medical malpractice programs. The County's investment in the agreements totaled \$45.7 million at June 30, 2004.

The claims liability of \$101.7 million reported at June 30, 2004 is based on the requirements of GASB Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements, and the amount of the loss can be reasonably estimated.

NOTE 6: TRANSFERS IN/OUT

Interfund Transfers In/Out transactions are used to close out a fund, reimburse an operating fund, and to transfer cash between operating funds and capital project funds.

County of San Bernardino
County Service Area No. 70 Zone R-40 Upper North Bay Lake Arrowhead
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 7: NET ASSETS

The government-wide financial statements utilize a net assets presentation. Net assets are categorized as invested in capital assets (net of related debt), restricted, and unrestricted.

- *Invested in Capital Assets, Net of Related Debt* – This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction, or improvement of these assets, as well as, any premium, discount paid on debt reduce the category balance.
- *Restricted Net Assets* - This category represents external restrictions imposed by creditors, grantors, contributors, other government's laws or regulations, or restrictions imposed by law through constitutional provisions or enabling legislation. Examples of restricted net assets include federal and state grant agreements that restrict grants to specific purposes and cash set aside for debt service payments.
- *Unrestricted Net Assets* - This category represents net assets of the County that are not invested in capital assets or restricted to specific purposes by agreements with external entities or by law.

In the fund financial statements, reserves and designations segregate portions of fund balance that are either not available or have been earmarked for specific purposes. The various reserves and designations are established by actions of the Board and management and can be increased, reduced, or eliminated by similar actions.

Net assets represent the difference between assets and liabilities. The net asset amounts were as follows:

Invested in Capital Assets, Net of Related Debt:

Net roadways	\$ 223,968
Less: Loans payable on roadways	35,979
	<hr/> 187,989
Unrestricted	10,117
Total Net Assets	<hr/> \$ 198,106 <hr/>

County of San Bernardino
County Service Area No. 70 Zone R-40 Upper North Bay Lake Arrowhead
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 8: PRIOR PERIOD ADJUSTMENT (for financial statements only)

A prior period adjustment was necessary to correct an accounting error in the Loans Payable balance at June 30, 2003. Loans Payable was understated by \$1,491; therefore, net assets were overstated.

	<u>Governmental Fund</u>
Beginning net assets, as previously reported	\$ 192,674
Restate loans payable balance at 6/30/03	<u>(1,491)</u>
Beginning net assets balance at June 30, 2003 as restated.	<u>\$ 191,183</u>

Prior year's beginning fund balance in the Fund Financial Statements was misstated due to an error in carrying forward the prior year's fund balance. This caused an overstatement of \$174,375 in fund balance.

	<u>Governmental Fund</u>
Beginning fund balance, as previously reported @ 6/30/2003	\$ 188,294
Adjustment	(174,375)
Beginning fund balance, as restated 6/30/2003	\$ 13,919
Change in net assets as reported 6/30/2003	<u>\$ (52,706)</u>
Ending fund balance will be as @ June 30, 2003	<u>\$ (38,787)</u>

County of San Bernardino
County Service Area No. 70, Zone R-40 Upper North Bay Lake Arrowhead
Budgetary Comparison Schedule-Special Revenue Fund (RGW)
For the Fiscal Year Ended June 30, 2004

SCHEDULE ONE

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final	Budgetary Basis	Final Budget Positive (negative)
Budgetary fund balance				
July 1, 2003	\$ 13,919	\$ 11,442	\$ (38,787)	\$ (50,229)
Resources (inflows):				
Property Taxes	-	-	183	183
Current Services	18,000	18,000	17,500	(500)
Use of money and property	-	500	-	(500)
Other Revenue	70,000	-	-	-
Amounts available for appropriation	<u>\$ 101,919</u>	<u>\$ 29,942</u>	<u>\$ (21,104)</u>	<u>\$ (51,046)</u>
Charges to appropriations (outflows)				
Salaries and Benefits	\$ 3,668	\$ 955	\$ 955	\$ -
Services and supplies	5,606	10,834	3,035	7799
Other charges	9,500	16,500	753	15747
Operating Transfers Out	70,000	15	15	-
Inter-fund Transfers Out	-	100	-	100
Reserves & Contingencies	13,145	1,538	-	1538
Total charges to Appropriations	<u>101,919</u>	<u>29,942</u>	<u>4,758</u>	<u>25,184</u>
Budgetary Fund Balance, June 30, 2004	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (25,862)</u>	<u>\$ (25,862)</u>

COUNTY OF SAN BERNARDINO
CALIFORNIA
SPECIAL DISTRICTS
AUDIT REPORT
MONTE VISTA FIRE PROTECTION DISTRICT
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

Prepared by:

Internal Audits Section
Office of the Auditor/Controller-Recorder
September 22, 2004

**County of San Bernardino Special Districts
Monte Vista Fire Protection District**

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AUDITOR/CONTROLLER-RECORDER COUNTY CLERK



COUNTY OF SAN BERNARDINO

AUDITOR/CONTROLLER • 222 West Hospitality Lane, Fourth Floor
San Bernardino, CA 92415-0018 • (909) 387-8322 • Fax (909) 386-8830

RECORDER • COUNTY CLERK • 222 West Hospitality Lane, First Floor
San Bernardino, CA 92415-0022 • (909) 387-8306 • Fax (909) 386-8940

LARRY WALKER
Auditor/Controller-Recorder
County Clerk

ELIZABETH A. STARBUCK
Assistant Auditor/Controller-Recorder
Assistant County Clerk

Independent Auditor's Report

September 22, 2004

Peter Hills, Fire Chief/Fire Warden
San Bernardino County Fire Department
157 W. Fifth Street, Second Floor
San Bernardino, CA 92415-0450

**SUBJECT: AUDIT OF MONTE VISTA FIRE PROTECTION DISTRICT FOR THE
FISCAL YEAR ENDED JUNE 30, 2004**

Introductory Remarks

In compliance with Section 26909 of the California Government Code, we have completed an audit of Monte Vista Fire Protection District for the fiscal year ended June 30, 2004.

Auditor's Report

We have audited the accompanying financial statements of the governmental activities of the Monte Vista Fire Protection District (District), a component unit of the County of San Bernardino, California, as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the minimum audit requirements and reporting guidelines for California Special Districts required by the Office of the State Controller. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles

used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above, present fairly, in all material respects, the financial position of the governmental activities of the District as, of June 30, 2004, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America as well as accounting systems prescribed by the State Controller's Office and the state regulations governing Special Districts.

The accompanying budgetary comparison information on page 14 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The District has not presented the *Management's Discussion and Analysis* that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Larry Walker
Auditor/Controller-Recorder

By:

Barbara K. Redding, CPA, CGFM
Internal Audits Manager

Quarterly copies to:

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Board of Supervisors
Grand Jury (2)

Audit File (3)

Audit Report Distributed:

11/22/04

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**County of San Bernardino
Monte Vista Fire Protection District
Statement of Net Assets
June 30, 2004**

	Governmental Activities
ASSETS	
Current assets:	
Cash & Cash Equivalent	\$ 158,271
Interest receivable	591
Taxes receivable	15,619
Total current assets	<u>\$ 174,481</u>
LIABILITIES	
Current liabilities:	
Due to other governments	<u>\$ 109,814</u>
Total current liabilities	109,814
NET ASSETS	
Unrestricted	<u>64,667</u>
Total net assets	<u>64,667</u>
Total liabilities and net assets	<u>\$ 174,481</u>

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino
Monte Vista Fire Protection District
Statement of Activities
For the Fiscal Year Ended June 30, 2004**

	Governmental Activities
EXPENSES	
Salaries and benefits	\$ 266,468
Services and supplies	<u>13,815</u>
Total expenses	<u>280,283</u>
 GENERAL REVENUES	
Property taxes	270,065
Interest	<u>3,168</u>
Total general revenues	<u>273,233</u>
 Change in net assets	 (7,050)
 Net assets - beginning	 <u>71,717</u>
Net assets - ending	<u>\$ 64,667</u>

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino
Monte Vista Fire Protection District
Balance Sheet
June 30, 2004**

	Fire (SRP)
ASSETS	
Cash and cash equivalents	\$ 158,271
Interest receivable	591
Taxes receivable	15,619
Total assets	<u>\$ 174,481</u>
LIABILITIES AND FUND BALANCES	
Liabilities:	
Due to other governments	\$ 109,814
Total liabilities	109,814
Fund balances:	
Unreserved	64,667
Total fund balances	64,667
Total liabilities and fund balances	<u>\$ 174,481</u>

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino
Monte Vista Fire Protection District
Statement of Revenues, Expenditures and Changes in Fund Balance
For the Fiscal Year Ended June 30, 2004**

	Governmental Funds
REVENUES	
Property taxes	\$ 270,065
Interest	3,168
Total revenues	<u>273,233</u>
EXPENDITURES	
Professional services	266,468
Services and supplies	13,815
Total expenditures	<u>280,283</u>
Excess of revenues over (under) expenditures	<u>(7,050)</u>
Net change in fund balances	(7,050)
Fund balances - beginning	<u>71,717</u>
Fund balances - ending	<u><u>\$ 64,667</u></u>

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino
Monte Vista Fire Protection District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2004**

NOTE 1: THE FINANCIAL REPORTING ENTITY

Reporting Entity

Monte Vista Fire Protection District (District) is a fire protection district located within the County of San Bernardino. The District has governmental powers as established by the San Bernardino County Government Charter (County). The County was established in 1852 as a legal subdivision of the State of California. The District was established by the County's Board of Supervisors (Board) on July 19, 1948. The District's powers are exercised through the Board, which is the governing body for the County. The District contracts fire protection and emergency medical services for an unincorporated area southwest of the City of Montclair.

The District is a component unit of the County. Component units are legally separate organizations for which the Board is financially accountable or other organizations whose nature and significant relationship with the County are such that exclusion would cause the County's financial statements to be misleading or incomplete. Financial accountability is defined as the appointment of a voting majority of the component unit's board, and either (i) the County has the ability to impose its will on the organization or (ii) there is potential for the organization to provide a financial benefit to or impose a financial burden on the County.

The accompanying financial statements reflect only the accounts of the District and are not intended to present the financial position of the County taken as a whole.

Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the reporting entity. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are

**County of San Bernardino
Monte Vista Fire Protection District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2004**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued*

reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Currently, the District does not have any proprietary or fiduciary fund types. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting* as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. However, for revenue derived from voluntary non-exchange transactions, such as taxes and federal and state grants, the County expanded its definition of "available" to 9 months. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes are considered to be susceptible to accrual and have been recognized as revenues in the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

**County of San Bernardino
Monte Vista Fire Protection District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2004**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *Continued*

The government reports the following major governmental fund:

The District utilizes a special revenue fund that accounts for all financial resources of the general government.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

Deposits and Investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." All accounts receivable are shown net of an allowance for uncollectibles when applicable.

Property taxes

Secured property taxes are levied in two equal installments, November 1 and February 1. They become delinquent with penalties on December 10 and April 10, respectively. The lien date is January 1 of each year. Unsecured property taxes are due on the March 1 lien date and become delinquent with penalties on August 31.

**County of San Bernardino
Monte Vista Fire Protection District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2004**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *Continued*

Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Stewardship, compliance and accountability

A. Budgetary information

In accordance with provisions of Section 29000 - 29143 of the Government code of the State of California, commonly known as the County Budget Act, the District prepares and adopts a budget on or before August 30 for each fiscal year.

Budgets are prepared on the modified accrual basis of accounting. The legal level of budgetary control is the object level and the sub-object level for capital assets within each fund.

Amendments or transfers of appropriations between funds or departments must be approved by the Board. Transfers at the sub-object level or cost center level may be done at the discretion of the Special District's Administration Department head.

Any deficiency of budgeted revenues and other financing sources over expenditures and other financing uses is financed by beginning available fund balances as provided for in the County Budget Act.

B. Encumbrances

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be re-appropriated and honored during the subsequent year.

**County of San Bernardino
Monte Vista Fire Protection District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2004**

NOTE 2: CASH AND CASH EQUIVALENTS

Cash and Cash Equivalents includes the cash balance of monies deposited with the County Treasurer which are pooled and invested for the purpose of increasing earnings through investment activities. Interest earned on pooled investments is deposited to the District's account based upon the District's average daily deposit balance during the allocation period. Cash and Cash Equivalents are shown at the fair value as of June 30, 2004.

NOTE 3: SELF INSURANCE

The District is insured through the County's self-insurance programs for public liability, property damage, unemployment insurance, employee dental insurance, hospital and medical malpractice liability, and workers' compensation claims. Public liability claims are self-insured for up to \$1 million per occurrence. Excess insurance coverage over the Self-Insured Retention (SIR) up to \$30 million is provided through a Risk Pool Agreement with California State Association of Counties (CSAC) Excess Insurance Authority (EIA) Liability Program II.

Workers' compensation claims are self-insured up to \$2 million per occurrence, and covered by CSAC EIA for up to \$10 million for employer's liability, and up to \$50 million for workers' compensation per occurrence. Property damage claims are insured on an occurrence basis over a \$25,000 deductible, and insured with CSAC EIA Property Program.

The County supplements its self-insurance for medical malpractice claims with CSAC EIA, which provides annual coverage on a claim made form basis with a SIR of \$1 million for each claim. Maximum coverage under the policy is \$11.5 million per claim with an additional \$18.5 million in limits provided by the CSAC EIA General Liability II Program.

All public officials and County employees are insured under a blanket Comprehensive Disappearance, Destruction, and Dishonesty policy covering County monies and securities, also with CSAC EIA with a \$100,000 deductible, and excess limits up to \$10 million per occurrence.

The activities related to such programs are accounted for in the Risk Management Fund (an Internal Service Fund) except for unemployment insurance, and employee dental insurance, which are accounted for in the General Fund. The liabilities included in the Risk Management Fund are based upon the results of actuarial studies, and include amounts for claims incurred but not reported, and allocated loss adjustment expenses. The liabilities for these claims are reported using a discounted rate of 5.00%. It is the County's practice to obtain actuarial studies at least biennially.

**County of San Bernardino
Monte Vista Fire Protection District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2004**

NOTE 3: SELF INSURANCE - *Continued*

The County has a risk management investment program agreement with the Bank of New York to finance the self-insured general liability, automobile liability, workers' compensation, and medical malpractice programs. The County's investment in the agreements totaled \$45.7 million at June 30, 2004.

NOTE 4: PROPOSITION 111 APPROPRIATION LIMITS

Proposition 111, which added Article XIIIB to the State Constitution, established limits on budget appropriations in order to restrict government spending. We have reviewed the proceeds of taxes received by the District during the 2003-2004 fiscal year, and have found the revenue to be within the guidelines established by Proposition 111.

NOTE 5: CONTRACTED FIRE PROTECTION SERVICES

The District contracts fire protection, prevention and emergency medical services from the City of Montclair. Tax revenue passes through the to the City of Montclair in return for contracted services.

NOTE 6: SUBSEQUENT EVENTS

Currently, the Local Agency Formation Commission is working on the dissolution of the District. Upon dissolution, the District's responsibilities and corresponding tax revenue will pass to the City of Montclair. It is estimated that the dissolution will be complete in April of 2005.

**County of San Bernardino
Monte Vista Fire Protection District
Required Supplementary Information
Budgetary Comparison Schedule
For the Fiscal Year Ended June 30, 2004**

Fire Protection	<u>Budgeted Amounts</u>		Actual Amounts	Variance with
	Original	Final	Budgetary Basis	Final Budget Favorable (Unfavorable)
Budgetary fund balance				
July 1, 2003	\$ 56,684	\$ 71,717	\$ 71,717	\$ -
Resources (inflows):				
Property Taxes	238,587	253,201	270,065	16,864
Interest	3,200	3,100	3,168	68
Other Revenue	-	-	-	-
Amounts available for appropriation:	<u>298,471</u>	<u>328,018</u>	<u>344,950</u>	<u>16,932</u>
Charges to appropriations (outflows)				
Professional Services	298,471	328,018	280,283	47,735
Materials and Supplies	-	-	-	-
Reimbursements	-	-	-	-
Total charges to Appropriations	<u>298,471</u>	<u>328,018</u>	<u>280,283</u>	<u>47,735</u>
Budgetary Fund Balance, June 30, 2004	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 64,667</u>	<u>\$ 64,667</u>

COUNTY OF SAN BERNARDINO
CALIFORNIA
SPECIAL DISTRICTS
AUDIT REPORT
BLOOMINGTON PARK AND RECREATION DISTRICT
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

Prepared by:

Internal Audits Section
Office of the Auditor/Controller-Recorder
September 24, 2004

**County of San Bernardino Special Districts
Bloomington Park and Recreation District**

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AUDITOR/CONTROLLER-RECORDER COUNTY CLERK



COUNTY OF SAN BERNARDINO

AUDITOR/CONTROLLER • 222 West Hospitality Lane, Fourth Floor
San Bernardino, CA 92415-0018 • (909) 387-8322 • Fax (909) 386-8830

RECORDER • COUNTY CLERK • 222 West Hospitality Lane, First Floor
San Bernardino, CA 92415-0022 • (909) 387-8306 • Fax (909) 386-8940

LARRY WALKER
Auditor/Controller-Recorder
County Clerk

ELIZABETH A. STARBUCK
Assistant Auditor/Controller-Recorder
Assistant County Clerk

Independent Auditor's Report

September 24, 2004

TOM SUTTON, DIRECTOR

Office of Special Districts
157 W. Fifth Street, Second Floor
San Bernardino, CA 92415-0450

**SUBJECT: AUDIT OF BLOOMINGTON PARK AND RECREATION DISTRICT FOR
THE FISCAL YEAR ENDED JUNE 30, 2004**

Introductory Remarks

In compliance with Section 26909 of the California Government Code, we have completed an audit of Bloomington Park and Recreation District for the fiscal year ended June 30, 2004.

Auditor's Report

We have audited the accompanying financial statements of the governmental activities, each major fund, and the remaining aggregate fund information of the County of San Bernardino's Special District Bloomington Park and Recreation District (District), a component unit of the County of San Bernardino, California, as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the minimum audit requirements and reporting guidelines for California Special Districts required by the Office of the State Controller. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining,

on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the remaining aggregate fund information of the District as of June 30, 2004, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America as well as accounting systems prescribed by the State Controller's Office and the state regulations governing Special Districts.

The accompanying budgetary comparison information on page 19 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The District has not presented the *Management's Discussion and Analysis* that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Larry Walker
Auditor/Controller-Recorder

By:

Barbara K. Redding, CPA, CGFM
Internal Audits Manager

Quarterly – Copies to:

County Administrative Office
Board of Supervisors
Grand Jury (2)
Audit File (3)

Date Report Distributed: 12/21/04

LDW:BKR:EBLL:dlp2

**County of San Bernardino
Bloomington Park and Recreation
Statement of Net Assets
June 30, 2004**

ASSETS

Current assets:

Cash and cash equivalents	\$ 147,119
Taxes receivable	9,159
Interest receivable	581
Total current assets	<u>156,859</u>

Noncurrent assets:

Capital assets:

Land	92,750
Improvements to land	846,589
Structures and improvements	418,489
Construction in progress	15,000
Equipment and vehicles	63,940
Less accumulated depreciation	<u>(933,297)</u>

Total noncurrent assets	<u>503,471</u>
-------------------------	----------------

Total assets	<u><u>\$ 660,330</u></u>
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LIABILITIES

Current liabilities:

Accounts payable	<u>\$ 1,608</u>
Total current liabilities	<u>1,608</u>
Total liabilities	<u>1,608</u>

NET ASSETS

Invested in capital assets	503,471
Unrestricted	<u>155,251</u>
Total net assets	<u>658,722</u>

Total liabilities and net assets	<u><u>\$ 660,330</u></u>
----------------------------------	--------------------------

**County of San Bernardino
Bloomington Park and Recreation
Statement of Activities
For the Fiscal Year Ended June 30, 2004**

EXPENSES

Salaries and benefits	\$ 91,140
Services and supplies	102,826
Depreciation	25,498
Operating transfers out	569
Total expenses	<u>220,033</u>

PROGRAM REVENUES

Charges for services	<u>50</u>
Total program revenues	<u>50</u>

Net program (expense) revenue	<u>(219,983)</u>
-------------------------------	------------------

GENERAL REVENUES

Property taxes	164,891
Interest	2,403
Other revenues	3,376
Gain on sale of capital assets	678
Operating transfers in	<u>15,000</u>
Total general revenues	<u>186,348</u>

Change in net assets	(33,635)
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Net assets - beginning	<u>692,357</u>
------------------------	----------------

Net assets - ending	<u><u>\$ 658,722</u></u>
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**County of San Bernardino
Bloomington Park and Recreation
Balance Sheet
June 30, 2004**

	Park and Rec (SSD)	Swim Program (SSE)	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 146,903	\$ 216	\$ 147,119
Taxes receivable	9,159	-	9,159
Interest receivable	581	-	581
Total assets	\$ 156,643	\$ 216	\$ 156,859
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 1,608	\$ -	\$ 1,608
Total liabilities	1,608	-	1,608
Fund balances:			
Reserved - encumbrances	-	3,850	3,850
Unreserved	155,035	(3,634)	151,401
Total fund balances	155,035	216	155,251
Total liabilities and fund balances	\$ 156,643	\$ 216	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

	<u>503,471</u>
Net assets of governmental activities	<u>\$ 658,722</u>

County of San Bernardino
Bloomington Park and Recreation
Statement of Revenues, Expenditures, and Changes in Fund Balances
For the Fiscal Year Ended June 30, 2004

	Park and Rec (SSD)	Swim Program (SSE)	Total Governmental Funds
REVENUES			
Property taxes	\$ 164,891	\$ -	\$ 164,891
Government aid	3,194	-	3,194
Interest	2,351	52	2,403
Other revenues	232	-	232
Total revenues	170,668	52	170,720
EXPENDITURES			
Salaries and benefits	74,219	16,921	91,140
Professional services	9,583	955	10,538
Services and supplies	44,519	6,035	50,554
Utilities	41,190	-	41,190
Rents and leases	194	350	544
Capital outlay	15,000	-	15,000
Total expenditures	184,705	24,261	208,966
Excess of revenues over (under) expenditures	(14,037)	(24,209)	(38,246)
OTHER FINANCING SOURCES (USES)			
Transfers out	(5,984)	(85)	(6,069)
Transfers in	15,000	5,500	20,500
Proceeds from sale of capital assets	678	-	678
Total other financing sources (uses)	9,694	5,415	15,109
Net change in fund balances	(4,343)	(18,794)	(23,137)
Fund balances - beginning	159,378	19,010	178,388
Fund balances - ending	\$ 155,035	\$ 216	\$ 155,251

**County of San Bernardino
Bloomington Park and Recreation
Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Fiscal Year Ended June 30, 2004**

Net change in fund balances - total governmental funds	\$	(23,137)
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Amounts reported for governmental activities in the statement of activities
are different because:

Governmental funds report capital outlays as expenditures. However,
in the statement of activities, the cost of those assets is allocated
over their estimated useful lives and reported as depreciation
expense. This is the amount by which depreciation expense
exceeded capital outlay in the current period.

(10,498)

Change in net assets of governmental activities

\$	(33,635)
----	----------

**County of San Bernardino
Bloomington Park and Recreation
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2004**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Bloomington Park and Recreation District (District) – is a special district located within the County of San Bernardino. The District has governmental powers as established by the San Bernardino County Government Charter (County). The County was established in 1852 as a legal subdivision of the State of California.

The District was established by an act of the Board of Supervisors of the County of San Bernardino and maintains two community parks, an equestrian arena, sports fields, and a community center. The District also manages a summer swim program within the community of Bloomington. In prior years, the swim program has been funded by an ECD block grant, but grant monies were not received in the fiscal year ended June 30, 2004. The District expects grant revenues in the fiscal year ended June 30, 2005.

The District is a component unit of the County. Component units are legally separate organizations for which the Board is financially accountable or other organizations whose nature and significant relationship with the County are such that exclusion would cause the County's financial statements to be misleading or incomplete. Financial accountability is defined as the appointment of a voting majority of the component unit's board, and either (i) the County has the ability to impose its will on the organization, or (ii) there is potential for the organization to provide a financial benefit to or impose a financial burden on the County.

The accompanying financial statements reflect only the accounts of the District and are not intended to present the financial position of the County taken as a whole.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the non-fiduciary activities of the reporting entity. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally

**County of San Bernardino
Bloomington Park and Recreation
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2004**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued*

dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting* as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. However, for revenue derived from voluntary non-exchange transactions, such as taxes and federal and state grants, the County expanded its definition of "available" to 9 months. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes are considered to be susceptible to accrual and have been recognized as revenues in the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

**County of San Bernardino
Bloomington Park and Recreation
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2004**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued*

The special revenue fund labeled "Park and Recreation" is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *special revenue fund* labeled "Swim Program" provides fee exempt recreation opportunities and swim lessons for economically disadvantaged families in Bloomington.

There are also three *capital projects funds*: Water Park at Ayala Park, Kessler Park Ball Field, and Kessler Park Horse Arena. These capital project funds provide improvements and maintenance for the parks

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

Cash and cash equivalents

Cash and cash equivalents are defined as cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Cash and cash equivalents include the cash balances of substantially all funds, which are pooled and invested by the County Treasurer to increase interest earnings through investment activities.

Investment activities are governed by the California Government Code Sections 53601, 53635, and 53638 and the County's Investment Policy. Authorized investments include U. S. Government Treasury and Agency securities, bankers' acceptances, commercial paper, medium term notes, mutual funds, repurchase agreements, and reverse repurchase agreements.

Interest income, and realized gains and losses earned on pooled investments are deposited quarterly to the District's accounts based upon the District's average daily

**County of San Bernardino
Bloomington Park and Recreation
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2004**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *Continued*

deposit balances during the quarter. Unrealized gains and losses of the pooled investments are distributed to the District annually. Cash and cash equivalents are shown at fair value as of June 30, 2004.

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." All accounts receivable are shown net of an allowance for doubtful accounts when applicable.

Property Taxes

Secured property taxes are levied in two equal installments, November 1 and February 1. They become delinquent with penalties on December 10 and April 10, respectively. The lien date is January 1 of each year. Unsecured property taxes are due on the March 1 lien date and become delinquent with penalties on August 31.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Capital Assets

Capital assets, which include property, plant and equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are, reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (for improvements to land and structures and equipment) and have an estimated useful life in excess of one (1) year. Structures with an initial cost of \$100,000 are considered capital assets. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

**County of San Bernardino
Bloomington Park and Recreation
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2004**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *Continued*

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the government are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Structures & improvements	5 – 45
Equipment and vehicles	6 – 15

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Reconciliation of Government-Wide and Fund Financial Statements

Explanation of certain differences between the governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the government-wide Statement of Activities:

The governmental fund statement of revenues, expenditures and changes in fund balances includes a reconciliation between *net changes in fund balances - total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that "Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense." The details of this \$10,498 difference are as follows:

Capital Outlay	\$ 15,000
Depreciation Expense	<u>(25,498)</u>
Net adjustment to decrease <i>net change in fund balances – total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	<u>\$ (10,498)</u>

**County of San Bernardino
Bloomington Park and Recreation
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2004**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *Continued*

Stewardship, Compliance and Accountability

A. Budgetary information

In accordance with provisions of Section 29000 - 29143 of the Government code of the State of California, commonly known as the County Budget Act, the District prepares and adopts a budget on or before August 30 for each fiscal year.

Budgets are prepared on the modified accrual basis of accounting. The legal level of budgetary control is the object level and the sub-object level for capital assets within each fund.

Amendments or transfers of appropriations between funds or departments must be approved by the Board. Transfers at the sub-object level or cost center level may be done at the discretion of the Special District's Administration Department head. Any deficiency of budgeted revenues and other financing sources over expenditures and other financing uses is financed by beginning available fund balances as provided for in the County Budget Act.

B. Encumbrances

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be re-appropriated and honored during the subsequent year.

NOTE 2: CAPITAL ASSETS

The costs of building and acquiring capital assets (land, buildings, vehicles and equipment) financed from the governmental funds are reported as expenditures in the year they are incurred, and the assets do not appear on the balance sheet. However, the statement of net assets includes those capital assets among the assets of Bloomington Park and Recreation District as a whole, and their original costs are expensed annually over their useful lives.

Capital asset activity for park and recreation activities for the year ended June 30, 2004 were as follows.

**County of San Bernardino
Bloomington Park and Recreation
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2004**

NOTE 2: CAPITAL ASSETS - Continued

	Balance at July 1, 2003	Additions	Disposals	Balance at June 30, 2004
Governmental activities				
Capital assets not being depreciated:				
Land	\$ 92,750	\$ -	\$ -	\$ 92,750
Construction in progress	-	15,000	-	15,000
Total capital assets not being depreciated	92,750	15,000	-	107,750
Capital assets being depreciated:				
Improvements to land	846,589	-	-	846,589
Structures and improvements	418,489	-	-	418,489
Vehicles	51,694	8,750	13,356	47,088
Equipment	16,852	-	-	16,852
Total capital assets being depreciated	1,333,624	8,750	13,356	1,329,018
Less accumulated depreciation for:				
Improvements to land	667,934	14,759	-	682,693
Structures and improvements	188,344	9,069	-	197,413
Vehicles	39,274	10,420	13,356	36,338
Equipment	16,853	-	-	16,853
Total accumulated depreciation	912,405	34,248	13,356	933,297
Total capital assets being depreciated, net	421,219	(25,498)	-	395,721
Total net capital assets	\$ 513,969	\$ (10,498)	\$ -	\$ 503,471

**County of San Bernardino
Bloomington Park and Recreation
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2004**

NOTE 3: RETIREMENT PLAN

Plan Description

The San Bernardino County Employees' Retirement Association (SBCERA) is a cost-sharing multiple-employer defined benefit pension plan (Plan) operating under the California County Employees Retirement Act of 1937 (1937 Act). The plan provides retirement, death, and disability benefits to members. Although legally established as a single employer plan for the County of San Bernardino (which includes this District), the organizations listed below were added later:

City of Big Bear Lake
City of Chino Hills
California State Association of Counties
San Bernardino County Law Library
Crest Forest Fire Protection District
Mojave Desert Air Quality Management District (MDAQMD)
South Coast Air Quality Management District (AQMD)
Local Agency Formation Commission (LAFCO)

The District and others covered under the plan are collectively referred to as the "Participating Members." The Plan is governed by the San Bernardino Board of Retirement under the 1937 Act. The Board acts as a fiduciary agent for the accounting and control of member and employee contributions and investment income. Employees become eligible for membership on their first day of regular employment and become fully vested after 5 years. SBCERA issues a stand-alone financial report which may be obtained by contacting the Board of Retirement, 348 West Hospitality Lane – 3rd floor, San Bernardino, California 92415-0014.

Funding Policy

Participating members are required by statute (Sections 31621, 31621.2 and 31639.25 of the California Government Code) to contribute a percentage of covered salary based on certain actuarial assumptions and their age at entry to the Plan. Employee contribution rates vary according to age and classification (general or safety). Members are required to contribute 8.36% - 13.46% of their annual covered salary of which the County pays approximately 7%. All employers combined are required to contribute 8.90% of the current year covered payroll. Employee contribution rates are established and may be amended pursuant to Articles 6 and 6.8 of the 1937 Act. Employer rates are determined pursuant to Sections 31453 of the 1937 Act. The District's retirement contributions are included in the County's prepaid pension costs. For 2004, the County's annual pension costs can be determined by obtaining a copy of its Comprehensive Annual Financial Report by contacting the Auditor/Controller, 222 W. Hospitality Lane, 4th Floor, Attn: General Accounting Section, San Bernardino, Ca 92415-0018.

**County of San Bernardino
Bloomington Park and Recreation
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2004**

NOTE 4: FEDERAL AND STATE GRANTS

From time to time the District may receive funds from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantors cannot be determined at this time, although the CSA expects such amounts, if any, to be immaterial.

NOTE 5: SELF INSURANCE

The District is insured through the County's self-insurance programs for public liability, property damage, unemployment insurance, employee dental insurance, hospital and medical malpractice liability, and workers' compensation claims. Public liability claims are self-insured for up to \$1 million per occurrence. Excess insurance coverage over the Self-Insured Retention (SIR) up to \$30 million is provided through a Risk Pool Agreement with California State Association of Counties (CSAC) Excess Insurance Authority ("EIA") Liability Program II. Workers' compensation claims are self-insured up to \$2 million per occurrence and covered by CSAC EIA for up to \$10 million for employer's liability and up to \$50 million for workers' compensation per occurrence. Property damage claims are insured on an occurrence basis over a \$25,000 deductible and insured with CSAC EIA Property Program.

The County supplements its self-insurance for medical malpractice claims with CSAC EIA which provides annual coverage on a claim made form basis with SIR of \$1 million for each claim. Maximum coverage under the policy is \$11.5 million per claim with an additional \$18.5 million in limits provided by the CSAC EIA General Liability II Program.

All public officials and County employees are insured under a blanket Comprehensive Disappearance, Destruction, and Dishonesty policy covering County monies and securities, also with CSAC EIA with a \$100,000 deductible, and excess limits up to \$10 million per occurrence.

The activities related to such programs are accounted for in the Risk Management Fund (an Internal Service Fund) except for unemployment insurance and employee dental insurance, which are accounted for in the General Fund. The liabilities included in the Risk Management Fund are based upon the results of actuarial studies and include amounts for claims incurred but not reported and allocated loss adjustment expenses. The liabilities for these claims are reported using a discounted rate of 5.00%. It is the County's practice to obtain actuarial studies at least biennially.

**County of San Bernardino
Bloomington Park and Recreation
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2004**

NOTE 5: SELF INSURANCE – Continued

The County has a risk management investment program agreement with the Bank of New York to finance the self-insured general liability, automobile liability, workers' compensation and medical malpractice programs. The County's investment in the agreements totaled \$45.7 million at June 30, 2004.

The claims liability of \$101.7 million reported at June 30, 2004 is based on the requirements of GASB Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

Changes in the claims liability amount in fiscal years 2003 and 2004 were:

Fiscal Year	Beginning of Fiscal Year Liability (in thousands)	Current-Year Claims and Changes in Estimates (in thousands)	Claims Payments (in thousands)	Balance at Fiscal Year-End (in thousands)
2003-2004	\$93,802	\$45,128	(\$37,221)	\$101,709
2002-2003	\$95,288	\$30,685	(\$32,171)	\$93,802

NOTE 6: PROPOSITION 111 APPROPRIATION LIMITS

Proposition 111, which added Article XIIIB to the State Constitution, established limits on budget appropriations in order to restrict government spending. We have reviewed the proceeds of taxes received by the District during the 2003-2004 fiscal year, and have found the revenue to be within the guidelines established by Proposition 111.

**County of San Bernardino
Bloomington Park and Recreation
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2004**

NOTE 7: NET ASSETS

Net assets represent the difference between assets and liabilities. They comprise the various net earnings from operating and non-operating revenues, expenses and contribution of capital. Net assets are classified in the following three components:

Invested in capital assets, net of related debt – This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted – This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors, grantors, contributors, or laws or regulations, of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted – This component of net assets consists of net assets of the District that are not restricted for any project or other purpose.

NOTE 8: INTERFUND TRANSFERS IN/OUT

Interfund Transfers In/Out transactions are used to close out a fund, reimburse an operating fund, and transfer cash between operating funds and capital project funds. At June 30, 2004, the District made the following Interfund Transfers In and Out:

Fund	Purpose	Amount
SSD	To SSE for operations	\$ 5,500
SSE	From SSD for Operations	(5,500)
	Net Interfund Transfers	<u>\$ -</u>

Required Supplemental Information
County of San Bernardino
Bloomington Park and Recreation District
Budgetary Comparison Schedule - Special Revenue Funds
June 30, 2004

	Original Budget	Final Budget	Actual	Variance with Final Budget
REVENUES:				
Property taxes	\$ 144,937	\$ 152,620	\$164,891	\$ 12,271
Interest and rents	16,100	2,100	2,403	303
Operating transfers in	30,309	30,309	15,000	(15,309)
Charges for services	500	500	50	(450)
Government Aid	137,000	137,000	3,194	(133,806)
Other revenues			860	860
Total revenues	<u>328,846</u>	<u>322,529</u>	<u>186,398</u>	<u>(136,131)</u>
EXPENDITURES:				
Salaries and benefits	101,448	120,428	91,140	29,288
Services and Supplies	101,020	130,710	102,826	27,884
Reserves amd contingencies	130,683	92,861	-	92,861
Operating Transfers out	137,000	138,068	569	137,499
Other expenditures	-	15,000	15,000	-
Total expenditures	<u>470,151</u>	<u>497,067</u>	<u>209,535</u>	<u>287,532</u>
Net change in Fund Balances	<u>\$ (141,305)</u>	<u>\$ (174,538)</u>	<u>\$ (23,137)</u>	<u>\$ 151,401</u>
Fund Balance - beginning			<u>178,388</u>	
Fund Balance - ending			<u>\$155,251</u>	

COUNTY OF SAN BERNARDINO

CALIFORNIA

SPECIAL DISTRICTS

AUDIT REPORT

AGUA MANSA INDUSTRIAL GROWTH ASSOCIATION

FOR THE FISCAL YEAR ENDED JUNE 30, 2004

Prepared by:

**Internal Audits Section
Office of the Auditor/Controller-Recorder
September 27, 2004**

**County of San Bernardino Special Districts
Agua Mansa Industrial Growth Association**

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AUDITOR/CONTROLLER-RECORDER COUNTY CLERK



COUNTY OF SAN BERNARDINO

AUDITOR/CONTROLLER • 222 West Hospitality Lane, Fourth Floor
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San Bernardino, CA 92415-0022 • (909) 387-8306 • Fax (909) 386-8940

LARRY WALKER
Auditor/Controller-Recorder
County Clerk

ELIZABETH A. STARBUCK
Assistant Auditor/Controller-Recorder
Assistant County Clerk

Independent Auditor's Report

September 27, 2004

Thomas R. Laurin, Director
Agua Mansa Industrial Growth Association
290 North "D" Street, Sixth Floor
San Bernardino, CA 92415-0400

**SUBJECT: AUDIT OF AGUA MANSA INDUSTRIAL GROWTH ASSOCIATION FOR
THE FISCAL YEAR ENDED JUNE 30, 2004**

Introductory Remarks

In compliance with Section 6505 of the California Government Code, we have completed an audit of Agua Mansa Industrial Growth Association for the fiscal year ended June 30, 2004.

Auditor's Report

We have audited the accompanying financial statements of the business-type activities of the Agua Mansa Industrial Growth Association (AMIGA), as of and for the year ended June 30, 2004, which collectively comprise AMIGA's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the AMIGA's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the minimum audit requirements and reporting guidelines for California Special Districts required by the Office of the State Controller. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and

significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of AMIGA, as of June 30, 2004, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America as well as accounting systems prescribed by the State Controller's Office and the state regulations governing Special Districts.

AMIGA has not presented the *Management's Discussion and Analysis* that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Larry Walker
Auditor/Controller-Recorder

By:

Barbara K. Redding, CPA, CGFM
Internal Audits Manager

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Date Report Distributed: 10/7/2004

LDW:BKR:CJA:dlp1

**County of San Bernardino
 Agua Mansa Industrial Growth Association
 Statement of Net Assets
 June 30, 2004**

	<u>Administration (NSD)</u>	<u>Administration (NSF)</u>	<u>Total</u>
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 167,458	\$ 294,662	\$ 462,120
Receivables:			
Interest	<u>714</u>	<u>1,265</u>	<u>1,979</u>
Total current assets	<u>168,172</u>	<u>295,927</u>	<u>464,099</u>
 Total assets	 <u>\$ 168,172</u>	 <u>\$ 295,927</u>	 <u>\$ 464,099</u>
 LIABILITIES			
Current liabilities:			
Accounts Payable	\$ 110	\$ 18,309	\$ 18,419
Total current liabilities	<u>110</u>	<u>18,309</u>	<u>18,419</u>
 Total liabilities	 <u>110</u>	 <u>18,309</u>	 <u>18,419</u>
 NET ASSETS			
Unrestricted	138,062	227,618	365,680
Restricted	<u>30,000</u>	<u>50,000</u>	<u>80,000</u>
Total net assets	<u>168,062</u>	<u>277,618</u>	<u>445,680</u>
 Total liabilities and net assets	 <u>\$ 168,172</u>	 <u>\$ 295,927</u>	 <u>\$ 464,099</u>

The notes to the financial statements are an integral part of this statement.

County of San Bernardino
Agua Mansa Industrial Growth Association
Statement of Revenues, Expenses, and Changes in Fund Net Assets
For the Year Fiscal Ended June 30, 2004

	Administration (NSD)	Administration (NSF)	Total
OPERATING REVENUES			
Contributions	\$ 30,000	\$ 50,000	\$ 80,000
Other	-	383,272	383,272
Total operating revenues	<u>30,000</u>	<u>433,272</u>	<u>463,272</u>
OPERATING EXPENSES			
Service and supplies	7,999	32,410	40,409
Professional services	32,729	334,657	367,386
Total operating expenses	<u>40,728</u>	<u>367,067</u>	<u>407,795</u>
Operating income (loss)	<u>(10,728)</u>	<u>66,205</u>	<u>55,477</u>
NONOPERATING REVENUES (EXPENSES)			
Interest	3,389	33,656	37,045
Total nonoperating revenues (expenses)	<u>3,389</u>	<u>33,656</u>	<u>37,045</u>
Change in net assets	(7,339)	99,861	92,522
Net assets, July 1, 2003	<u>175,401</u>	<u>177,757</u>	<u>353,158</u>
Net assets, June 30, 2004	<u><u>\$ 168,062</u></u>	<u><u>\$ 277,618</u></u>	<u><u>\$ 445,680</u></u>

The notes to the financial statements are an integral part of this statement.

**County of San Bernardino
 Agua Mansa Industrial Growth Association
 Statement of Cash Flows
 For the Year Fiscal Ended June 30, 2004**

Enterprise Fund - Administration (NSD)

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from member dues	\$ 42,000
Other	-
Payments to suppliers for goods and services	(11,999)
Other payments	<u>(32,619)</u>
Net cash provided by operating activities	<u>(2,618)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest	3,606
Net cash provided by investing activities	<u>3,606</u>
Net increase in cash and cash equivalents	988
Balance-beginning of the year	<u>166,470</u>
Balance-end of the year	<u><u>\$ 167,458</u></u>

Reconciliation of operating income (loss) to net cash provided by operating activities:

Operating income (loss)	\$ (10,728)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Change in assets and liabilities:	
Due from other governments	12,000
Accounts and other payables	<u>(3,890)</u>
Net cash provided by operating activities	<u><u>\$ (2,618)</u></u>

The notes to the financial statements are an integral part of this statement.

**County of San Bernardino
 Agua Mansa Industrial Growth Association
 Statement of Cash Flows
 For the Year Fiscal Ended June 30, 2004**

Enterprise Fund - Community Facilities District (NSF)

CASH FLOWS FROM OPERATING ACTIVITIES

Receipt from special assessments	\$ 50,000
Contribution	275,808
Other Receipts	7,465
Payments to suppliers for goods and services	(32,768)
Other Payments	<u>(356,871)</u>
Net cash used by operating activities	<u>(56,366)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest	<u>34,179</u>
Net cash provided by investing activities	<u>34,179</u>
Net increase (decrease) in cash and cash equivalents	(22,187)

Balances-beginning of the year	<u>316,849</u>
--------------------------------	----------------

Balances-end of the year	<u><u>\$ 294,662</u></u>
--------------------------	--------------------------

Reconciliation of operating income (loss) to net cash provided by operating activities:

Operating income (loss)	\$ 66,205
Adjustments to reconcile operating income to net cash provided by operating activities:	
Change in assets and liabilities:	
Accounts and other payables	(22,571)
Deposit	<u>(100,000)</u>
Net cash provided by operating activities	<u><u>\$ (56,366)</u></u>

The notes to the financial statements are an integral part of this statement.

**County of San Bernardino
Agua Mansa Industrial Growth Association
Statement of Fiduciary Net Assets
Fiduciary Funds
For the Fiscal Year Ended June 30, 2004**

	<u>Agency Funds</u>
ASSETS	
Cash and cash equivalents	\$ 185
Interest receivable	<u>275</u>
Total current assets	<u><u>\$ 460</u></u>
 LIABILITIES	
Due to bondholders	<u>\$ 460</u>
Total liabilities	<u><u>\$ 460</u></u>

The notes to the financial statements are an integral part of this statement.

**County of San Bernardino
Agua Mansa Industrial Growth Association
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2004**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Agua Mansa Industrial Growth Association (AMIGA) was established under a Joint Powers Agreement by the County of San Bernardino, the County of Riverside, the City of Colton, the City of Rialto, and the City of Riverside (Jurisdictions) on May 17, 1985. The Jurisdictions utilize joint powers to manage, coordinate, market, and administer economic development programs and projects in the AMIGA enterprise zone area. The enterprise zone comprises specific areas within each of the six jurisdictions.

AMIGA is authorized and empowered to contract with all the other parties for the joint exercise of powers under Article I, Chapter 5, Division 7, Title 1 of the Government Code of the State of California, Sections 6500 et seq. AMIGA is self-governed by an Executive Committee which is comprised of one member of each jurisdiction, who is appointed by the Jurisdiction. San Bernardino County is the administrative agency and Riverside County is the marketing agency for the jurisdictions.

The Jurisdictions utilize joint powers to manage, coordinate, market, and administer economic development programs and projects in the AMIGA enterprise zone area. The enterprise zone comprises specific areas within each of the six jurisdictions.

AMIGA is financed by the mandatory and voluntary contributions assessed to each Jurisdiction. The Jurisdictions are assessed a \$6,000 mandatory contribution each fiscal year. Voluntary contributions are paid by the jurisdictions for special projects as set forth in Article X of the joint powers agreement. Additional financing is generated through revenue bonds, for which the jurisdictions shall have no obligation or liability.

Measurement focus, basis of accounting, and financial statement presentation

The propriety fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

**County of San Bernardino
Agua Mansa Industrial Growth Association
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2004**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued*

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of AMIGA's enterprise funds is mandatory and voluntary contributions from the jurisdictions. Operating expenses for enterprise funds include the cost of services and supplies and administrative expenses. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

Special assessment receivables due within the current fiscal period are considered to be susceptible to accrual as revenue of the current period.

AMIGA reports the following major funds:

The *NSD fund* accounts for the administration of AMIGA and the *NSF fund* accounts for the administration of the Agua Mansa Community Facilities District.

Agency funds are used to account for assets held by the District as an agent for individuals, private organizations, other governments and/or other funds. The funds are custodial in nature (assets equal liabilities) and do not involve measurement of the results of operations.

The modified accrual basis of accounting is used for the agency fund. The fund is used to account for the accumulation of resources for, and payment of, the bonds issued under the Mello-Roos Community Facilities Act of 1982 to stimulate private investment in business and industrial growth in economically depressed areas within the boundaries of AMIGA's six jurisdictions.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

**County of San Bernardino
Agua Mansa Industrial Growth Association
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2004**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued*

Deposits and Investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." All accounts receivable are shown net of an allowance for uncollectibles when applicable.

Stewardship, compliance and accountability

Budgetary information:

In accordance with provisions of Article IX of the Agua Mansa Industrial Growth Association Joint Powers Agreement, AMIGA prepares and adopts an annual budget before the start of each fiscal year.

NOTE 2: CASH AND CASH EQUIVALENTS

Cash and cash equivalents includes the cash balance of monies deposited with the County Treasurer which are pooled and invested for the purpose of increasing earnings through investment activities. Interest earned on pooled investments is deposited to AMIGA's account based upon AMIGA's average daily deposit balance during the allocation period. Cash and Cash Equivalents are shown at the fair value as of June 30, 2004.

**County of San Bernardino
Agua Mansa Industrial Growth Association
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2004**

NOTE 3: SPECIAL ASSESSMENT ACCOUNTING – 1982 ACT BONDS

In July 2003, bonds were issued on behalf of the Agua Mansa Community Facilities District 2002-1 (District) under the Mello-Roos Community Facilities Act of 1982 in the amount of \$12,705,000. The bonds are not the liability of the District and are payable from the net proceeds, after payment of certain administrative expenses, from an annual Special Tax that is levied and secured by a continuing lien against all nonexempt property located within the District. As such, the bonds do not appear in the accompanying general purpose financial statements. In the event that an entity/business within the enterprise zone defaults on their property taxes, American Express will guarantee payment to the District for the taxes. US Bank is the fiscal agent of the bond proceeds.

NOTE 4: DONATED SERVICES

Each Jurisdiction is required to contribute office and personnel services pursuant to Article VIII of the Joint Powers Agreement. The value of these services is not reflected in the financial statements.

NOTE 5 RESTRICTED ASSETS

Certain proceeds of the AMIGA's enterprise funds are classified as restricted assets on the statement of net assets because their use is limited by the governing body of AMIGA. The "Administration (NSD)" account is used to report remittances received from the jurisdictions for the administrative costs of AMIGA. The "Administration (NSF)" account is used to report proceeds of the special tax revenue bond issuances remitted by the fiscal agent for the administration of the bonds.

NOTE 6 CONTRIBUTIONS

On July 1st, each jurisdiction contributes a mandatory contribution of \$6,000. The mandatory contribution shall be used only for those administrative and other matters of general benefit to all jurisdictions.

COUNTY OF SAN BERNARDINO

CALIFORNIA

LOCAL AGENCY FORMATION COMMISSION

AUDIT REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2004

Prepared by:

**Internal Audits Section
Office of the Auditor/Controller-Recorder
November 4, 2004**

**Local Agency Formation Commission
For San Bernardino County**

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LARRY WALKER
Auditor/Controller-Recorder
County Clerk

ELIZABETH A. STARBUCK
Assistant Auditor/Controller-Recorder
Assistant County Clerk

Independent Auditor's Report

November 4, 2004

Jim Bagley, Chairman
Local Agency Formation Commission
175 West Fifth Street, Second Floor
San Bernardino, CA 92415-0490

**SUBJECT: AUDIT OF LOCAL AGENCY FORMATION COMMISSION FOR
 SAN BERNARDINO COUNTY FOR THE FISCAL YEAR ENDED
 JUNE 30, 2004**

Introductory Remarks

Per your request, we have completed an audit of Local Agency Formation Commission for San Bernardino County for the fiscal year ended June 30, 2004.

Auditor's Report

We have audited the accompanying financial statements of the governmental activities of the Local Agency Formation Commission for San Bernardino County (Commission), an independent state mandated agency for the County of San Bernardino, California, as of and for the year ended June 30, 2004, which comprise the Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Commission's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Audrpt/Jim Bagley,
Chairman
November 4, 2004
Page -2-

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the Commission, as of June 30, 2004, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying budgetary comparison information on page 16 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The Commission has not presented the *Management's Discussion and Analysis* that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Larry Walker
Auditor/Controller-Recorder

By: _____

Barbara K. Redding, CPA, CGFM
Manager, Internal Audit Section

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Board of Supervisors
Grand Jury (2)

Audit File (3)

Date Report Distributed: _____

12/21/04

LDW:BKR:MMH:dlp1

**Local Agency Formation Commission
For San Bernardino County
Statement of Net Assets
June 30, 2004**

	<u>Governmental Activities</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 167,758
Petty cash - imprest funds	250
Interest receivable	941
Accounts receivable	5,824
Total current assets	<u>174,773</u>
Noncurrent assets:	
Capital assets:	
Equipment	32,240
Less accumulated depreciation	<u>(15,602)</u>
Total noncurrent assets	<u>16,638</u>
Total assets	<u><u>\$ 191,411</u></u>
LIABILITIES	
Current liabilities:	
Salaries and benefits payable	\$ 20,503
Deferred Revenue	20,607
Total current liabilities	<u>41,110</u>
Noncurrent liabilities:	
Employee compensated absences	<u>29,931</u>
Total noncurrent liabilities	<u>29,931</u>
Total liabilities	<u><u>71,041</u></u>
NET ASSETS	
Invested in capital assets	16,638
Unrestricted	<u>103,732</u>
Total net assets	<u>120,370</u>
Total liabilities and net assets	<u><u>\$ 191,411</u></u>

The notes to the financial statements are an integral part of this statement.

**Local Agency Formation Commission
For San Bernardino County
Statement of Activities
For the Fiscal Year Ended June 30, 2004**

	<u>Governmental Activities</u>
EXPENSES	
Salaries and benefits	\$ 347,581
Services and supplies	207,380
Depreciation	5,260
Total expenses	<u>560,221</u>
PROGRAM REVENUES	
Charges for services	122,215
Other governmental aid	489,999
Total program revenues	<u>612,214</u>
Net program revenue	<u>51,993</u>
GENERAL REVENUES	
Interest	6,134
Total general revenues	<u>6,134</u>
Change in net assets	58,127
Net assets - beginning	62,243
Net assets - ending	<u>\$ 120,370</u>

The notes to the financial statements are an integral part of this statement.

**Local Agency Formation Commission
For San Bernardino County
Balance Sheet
June 30, 2004**

	General Fund
ASSETS	
Cash and cash equivalents	\$ 167,758
Petty cash - imprest funds	250
Interest receivable	941
Accounts receivable	5,824
Total assets	<u>\$ 174,773</u>

LIABILITIES AND FUND BALANCES

Liabilities:	
Salaries and benefits payable	\$ 20,503
Deferred Revenue	20,607
Total liabilities	<u>41,110</u>
Fund balances:	
Unreserved	133,663
Total fund balances	<u>133,663</u>
Total liabilities and fund balances	<u>\$ 174,773</u>

Reconciliation of the balance sheet of governmental funds to the statement of net assets

Total fund balances - governmental funds	\$ 133,663
--	------------

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	16,638
---	--------

Noncurrent employee compensated absences do not constitute an outflow of current financial resources and, therefore, are not reported in the funds.	<u>(29,931)</u>
---	-----------------

Net assets of governmental activities	<u>\$ 120,370</u>
---------------------------------------	-------------------

The notes to the financial statements are an integral part of this statement.

**Local Agency Formation Commission
For San Bernardino County
Statement of Revenues, Expenditures, and Changes in Fund Balances
For the Fiscal Year Ended June 30, 2004**

	<u>General Fund</u>
REVENUES	
Charges for services	\$ 122,215
Interest	6,134
Other governmental aid	489,999
Total revenues	<u>618,348</u>
EXPENDITURES	
Salaries and benefits	335,597
Services and supplies	207,380
Total expenditures	<u>542,977</u>
Excess of revenues over (under) expenditures	75,371
Net change in fund balances	75,371
Fund balances - beginning	58,292
Fund balances - ending	<u>\$ 133,663</u>

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities

Net change in fund balances - total governmental funds \$ 75,371

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of depreciation expense reported in the current period. (5,260)

Expenses in the statement of activities that do not require the use of current financial resources are not reported as expenditures in the governmental funds. This is the change in Compensated Absences. (11,984)

Change in net assets of governmental activities \$ 58,127

The notes to the financial statements are an integral part of this statement.

**Local Agency Formation Commission
For San Bernardino County
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2004**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Local Agency Formation Commission for San Bernardino County (Commission) is a State mandated agency that was created in 1963. The Commission is responsible for working closely with citizens, the County of San Bernardino, cities, and special districts on a variety of issues concerning jurisdictional changes.

The Commission consists of seven voting members as follows:

- Two members of city councils,
- Two members of the Board of Supervisors of the County of San Bernardino,
- Two members of independent special districts, and
- A member representing the general public.

As of January 2001, the Commission's powers, responsibilities, and authority are all defined and described in the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000 (CKH).

Government-wide and fund financial statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the nonfiduciary activities of the reporting entity. As a general rule, the effect of any interfund activity is eliminated from the government-wide financial statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from any business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Currently, the Commission does not have any proprietary or fiduciary fund types and operates under a single-program governmental fund.

**Local Agency Formation Commission
For San Bernardino County
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2004**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued*

Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The Commission reports the following major governmental fund:

The general fund is the Commission's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The Commission has elected not to follow subsequent private-sector guidance.

When both restricted and unrestricted resources are available for use, it is the Commission's policy to use restricted resources first, and then unrestricted resources as they are needed.

Cash and cash equivalents

Cash and cash equivalents are defined as cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

**Local Agency Formation Commission
For San Bernardino County
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2004**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued*

Cash and cash equivalents include the cash balances of substantially all funds, which are pooled and invested by the County Treasurer to increase interest earnings through investment activities.

Investment activities are governed by the California Government Code Sections 53601, 53635, and 53638 and the County's Investment Policy. Authorized investments include U. S. Government Treasury and Agency securities, bankers' acceptances, commercial paper, medium term notes, mutual funds, repurchase agreements, and reverse repurchase agreements.

Interest income, and realized gains and losses earned on pooled investments are deposited quarterly to the Commission's accounts based upon the Commission's average daily deposit balances during the quarter. Unrealized gains and losses of the pooled investments are distributed to the Commission annually. Cash and cash equivalents are shown at fair value as of June 30, 2004.

Accounts receivable

All accounts receivable are shown in full at June 30, 2004. Because of the nature of the Commission's business, historically, there are no past due accounts and therefore no allowance for doubtful accounts.

Capital assets

Capital assets, include property, plant and equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), and are reported in the applicable governmental columns in the government-wide financial statements. Capital assets are defined by the Commission as assets with an initial, individual cost of more than \$5,000 (for improvements to land and structures and equipment) and have an estimated useful life in excess of one (1) year. Structures with an initial cost of \$100,000 are considered capital assets. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that does not add to the value of the asset or materially extend asset life is not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Equipment of the Commission is depreciated using the straight-line method over a 5 to 7 year estimated useful life.

**Local Agency Formation Commission
For San Bernardino County
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2004**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued*

Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Employee Compensated Absences

Liabilities for vacation, holidays, sick pay and compensatory time are accrued when incurred in the government-wide financial statements. Upon retirement or termination, an employee is compensated for 100% of unused accrued vacation and holiday time. Those with ten or more years of continuous service receive 30% to 50% of their accumulated sick leave. In accordance with GASB Interpretation Number 6, a liability for accrued leave is reported in the governmental fund financial statements only if it has matured. A matured liability may result from employees who terminate prior to year-end and are paid for their leave subsequent to year-end.

Compensated absences activity for the year ended June 30, 2004 was as follows:

<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
\$ 17,946	33,859	21,875	\$ 29,930

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Reconciliation of government-wide and fund financial statements

Explanation of certain differences between the governmental fund's Statement of Revenues, Expenditures, and Changes in Fund Balances and the government-wide Statement of Activities.

The governmental fund's Statement of Revenues, Expenditures and Changes in Fund Balances includes reconciliation between net changes in fund balances - total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation explains

**Local Agency Formation Commission
For San Bernardino County
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2004**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *continued*

that, "Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense."

The detail is as follows:

Depreciation expense	\$ (5,260)
	<u>\$ (5,260)</u>

Stewardship, compliance and accountability

A. Budgetary information

In accordance with provisions of Section 56381 of the Government Code of the State of California, commonly known as the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000 (CKH), the Commission shall adopt a proposed budget by May 1 and a final budget by June 15 of each fiscal year.

Budgets are prepared on the modified accrual basis of accounting. After adoption of a final budget, the County of San Bernardino auditor shall apportion one-third of net operating expenses of the Commission to each of the following: the county, cities, and independent special districts. The legal level of budgetary control is the object level and the sub-object level for capital assets within each fund.

Amendments or transfers of appropriations between funds or departments must be approved by the Commission. Any deficiency of budgeted revenues and other financing sources over expenditures and other financing uses is financed by beginning available fund balances as provided for in the County Budget Act.

B. Encumbrances

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

NOTE 2: CAPITAL ASSETS

The costs of building and acquiring capital assets (land, buildings, vehicles and equipment) financed from the governmental funds are reported as expenditures in the year

**Local Agency Formation Commission
For San Bernardino County
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2004**

NOTE 2: CAPITAL ASSETS – Continued

they are incurred, and the assets do not appear on the balance sheet. However, the statement of net assets includes those capital assets among the assets of the Commission as a whole, and their original costs are expensed annually over their useful lives. Capital asset activity for governmental activities for the year ended June 30, 2004, follows:

	Balance at July 1, 2003	Additions	Disposals	Balance at June 30, 2004
Governmental activities				
Capital assets being depreciated:				
Equipment	\$ 32,240	\$ -	\$ -	\$ 32,240
Total capital assets being depreciated	<u>32,240</u>	<u>-</u>	<u>-</u>	<u>32,240</u>
Less accumulated depreciation for:				
Equipment	10,342	5,260	-	15,602
Total accumulated depreciation	<u>10,342</u>	<u>5,260</u>	<u>-</u>	<u>15,602</u>
Total net capital assets	<u>\$ 21,898</u>	<u>\$ (5,260)</u>	<u>\$ -</u>	<u>\$ 16,638</u>

NOTE 3: DEFERRED REVENUE

At June 30, 2004, the Commission deferred recognition of \$20,607 from service fees that had been received but not yet earned.

NOTE 4: RETIREMENT PLAN

Plan Description

The San Bernardino County Employees' Retirement Association (SBCERA) is a cost-sharing multiple-employer defined benefit pension plan (Plan) operating under the California County Employees Retirement Act of 1937 (1937 Act). The Plan provides retirement, death, and disability benefits to members. Although legally established as a single employer plan for the County of San Bernardino, the Commission was added later.

The Commission and others covered under the Plan are collectively referred to as the "Participating Members". The Plan is governed by the San Bernardino Board of Retirement under the 1937 Act. The Board acts as a fiduciary agent for the accounting and control of member and employee contributions and investment income. Employees become eligible for membership on their first day of regular employment and become fully vested after 5 years. SBCERA issues a stand-alone financial report, which may be obtained by contacting the Board of Retirement, 348 W Hospitality Lane - 3rd floor, San Bernardino, California 92415-0014.

**Local Agency Formation Commission
For San Bernardino County
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2004**

NOTE 4: RETIREMENT PLAN - Continued

Funding Policy

Participating members are required by statute (Sections 31621, 31621.2 and 31639.25 of the California Government Code) to contribute a percentage of covered salary based on certain actuarial assumptions and their age at entry to the Plan. Employee contribution rates vary according to age and classification (general or safety). Members are required to contribute 8.36% - 13.46% of their annual covered salary of which the Commission pays approximately 7%. All employers combined are required to contribute 8.90% of the current year covered payroll. Employee contribution rates are established and may be amended pursuant to Articles 6 and 6.8 of the 1937 Act. Employer rates are determined pursuant to Sections 31453 of the 1937 Act.

NOTE 5: NET ASSETS

Net assets comprise the various net earnings from operating and non-operating revenues, expenses and contribution of capital. Net assets are classified in the following three components:

Invested in capital assets, net of related debt – This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted – This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors, grantors, contributors, or laws or regulations, of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted – This component of net assets consists of net assets of the Commission that are not restricted for any project or other purpose.

Net assets represent the difference between assets and liabilities. The net asset amounts were as follows:

Invested in capital assets, net of related debt:

Net capital assets	\$ 16,638
Unrestricted	<u>103,732</u>
Total net assets	<u><u>\$120,370</u></u>

**Local Agency Formation Commission
For San Bernardino County
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2004**

NOTE 6: INSURANCE

The Commission is insured with the Special District Risk Management Authority. The schedule of insurance coverage is as follows:

Coverage	Limit of Insurance	
Personal Injury and Property Damage Liability - General	\$2,500,000	Per occurrence/aggregate where applicable
Personal Injury and Property Damage Liability - Auto	\$2,500,000	Per Accident
Public Officials and Employees Errors and Omissions Liability	\$2,500,000	Per wrongful act/annual member aggregate
Employment Practices Liability	\$2,500,000	Per wrongful employment practice/aggregate limits per member.
Employee Benefits Liability	\$2,500,000	Per wrongful act/annual member aggregate
Employee Dishonesty Coverage	\$400,000	Per loss.
Public Officials Personal Liability	\$500,000	Per occurrence/annual aggregate per Board Member
Property Coverage	\$750,000,000	Per occurrence
Boiler and Machinery	\$100,000,000	Per occurrence
Workers' Compensation	\$50,000,000	Per occurrence for Workers' Compensation
	\$10,000,000	Employer's Liability

Unemployment insurance is provided through the State of California's Employment Development Department.

**Local Agency Formation Commission
For San Bernardino County
Budgetary Comparison Schedule – Special Revenue Funds
For the Fiscal Year Ended June 30, 2004**

General Fund	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		Positive (negative)
Budgetary fund balance July 1, 2003	\$ 58,292	\$ 58,292	\$ 58,292	\$ -
Resources (inflows):				
Property taxes	-	-	-	-
Other governmental aid	490,000	490,000	489,999	(1)
Interest	15,000	15,000	6,134	(8,866)
Operating transfers in	-	-	-	-
Charges for services	66,110	66,110	122,215	56,105
Other taxes	-	-	-	-
Other revenue	-	-	-	-
Amounts available for appropriation	629,402	629,402	676,640	47,238
Charges to appropriations (outflows):				
Salaries and benefits	394,467	394,467	335,597	58,870
Services and supplies	212,332	212,332	207,380	4,952
Reserve for equipment	38,993	38,993	-	38,993
Reserve for contingencies	-	-	-	-
Total charges to appropriations	645,792	645,792	542,977	102,815
Budgetary fund balance, June 30, 2004	\$ (16,390)	\$ (16,390)	\$ 133,663	\$ 150,053

AUDITOR/CONTROLLER-RECORDER COUNTY CLERK



COUNTY OF SAN BERNARDINO

AUDITOR/CONTROLLER • 222 West Hospitality Lane, Fourth Floor
San Bernardino, CA 92415-0018 • (909) 387-8322 • Fax (909) 386-8830
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San Bernardino, CA 92415-0022 • (909) 387-8306 • Fax (909) 386-8940

LARRY WALKER
Auditor/Controller-Recorder
County Clerk

ELIZABETH A. STARBUCK
Assistant Auditor/Controller-Recorder
Assistant County Clerk

October 31, 2003

Thomas L. Sutton, Director
Special Districts Department
157 West Fifth Street, Second Floor
San Bernardino, CA 92415-0450

**Subject: MANAGEMENT LETTER – WATER & SANITATION DIVISION,
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

In compliance with Section 26909 of the California Government Code, we have audited the accounts receivable of the Water and Sanitation Districts for the fiscal year ended June 30, 2003. In planning and performing our audit of the accounts receivables, we considered internal controls in order to determine our auditing procedures. An audit does not include examining the effectiveness of internal control and does not provide assurance on internal control. However, we noted certain matters involving internal controls and their operation, which are presented for your consideration.

We do not consider the matter to be a reportable condition under the standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. We have not considered internal controls since the date of our report.

These comments and recommendations, all of which have been discussed with appropriate members of management, are intended to improve internal controls or result in other operating efficiencies and are summarized as follows.

FINDINGS AND RECOMMENDATIONS

Finding One: Control activities in the billing and collection area could be improved.

Good business practice requires that policies and procedures be written and distributed to help ensure that management's directives are carried out. Without written instructions and/or procedures, the review and enforcement of the organization's policies could be difficult.

During our field work, we noted the following:

- Billing and collection staff were not aware of any written procedures and/or instructions for their area of responsibility.
- There were three instances where delinquent accounts were not followed up. These delinquent accounts were neither submitted for inclusion in the tax roll nor sent to collections.
- Billing and collection staff were authorized to adjust customer accounts without prior written supervisory approval. Management stated that a supervisor reviews and approves the billing adjustments. However, these reviews and approvals were not documented so we could not verify that they were performed.

Recommendations

Ensure that policies and procedures are written and distributed to staff. Consider publishing the billing and collection policies and procedures on the District's intranet website to ensure that all employees have ready access to the information. In addition, ensure that all delinquent accounts are followed-up. Continue having the supervisor review account adjustments made by billing and collection staff to ensure that transactions are reasonable and proper. Document the review and approval process by having the reviewer initial the adjustment documents.

Auditee's Response

The Water and Sanitation Division of the Special Districts Department has had written policies and procedures for several years. While our procedural documentation does not encompass all tasks performed by staff, documentation did exist at the time of this audit. Copies of those documents were provided to your office. All division staff have been reminded of existing procedural documentation.

As many of our procedures have been updated, it must be noted that this is an on going process as workflow and policy changes are made. The procedural documentation for each business unit is being developed and the complete Water and Sanitation (WAS) Division's Procedure Manual is in draft form at this time. Copies of the updated procedures were provided to your office. Submission of delinquent accounts to the tax roll is an arduous process that involves decision making processes that span internal county departments to insure the correct application of charges against the property owner's tax bill. For example, this year the WAS Division will submit approximately 500 customer accounts for consideration of placement on the tax roll. The three instances where the accounts were not placed on the tax roll are due to timing issues when the property changed ownership. Detail of those circumstances was previously provided to your office.

Staff are authorized, without notifying the supervisor or receiving supervisor approval, to adjust one-time fee waivers—per District Policy—, to correct billing

errors and enter into payment extensions with our customers. In no instance are employees allowed to adjust consumption, fixed costs or write off debt, off of customer accounts, without written or express consent from the Business Operations Manager. The month-end adjustments report is reviewed by the Collections Officer and audited by the Business Operations Manager.

Auditor's Response

In the case of the three accounts that were not sent to the tax roll or collections, the District maintains this was due to timing issues related to changes in ownership. However, Account no. 421071-1 had a balance of \$890.45. This account had been closed since August 23, 2000 and yet a billing adjustment (#22) for \$706.00 was made on June 24, 2002. In addition, the account was assessed additional penalties of \$184.45 from July 2002 through August 2003. Account no. 63-0110-1 is also a closed account. The last activity shown in the account ledger was dated January 15, 2000 for \$146.41.

In response to staff adjustments, supervisory approval should be documented. According to the auditee's response to the 2003 Internal Control Matrix and subsequent discussion with District's staff, there was no process in place for the Manager to review cash collections and accounts receivable. It is our understanding that the District implemented the review of the month-end adjustments reports during fiscal year 2004. In light of the District's recent monetary loss, it is imperative that adjustments be reviewed and approved in writing by a supervisor.

Finding Two: Customer refunds are not reviewed and refunded promptly.

County policy requires that the existence and value of assets be periodically verified and reconciled. In reviewing the Accounts Receivable Aging Report at year end, we noted that the District had 829 accounts with credit balances or over payments. Of the 829 accounts, 25 had been closed for more than 3 years, 43 had been closed for more than 2 years, and 63 had been closed for more than one year. In addition, we also noted the following:

1. At the time of our field visit, there were no written policies and procedures for customer refunds.
2. Customer overpayments were not refunded in a timely manner.
3. Unclaimed overpayments held by the District for more than three years were neither transferred to the District's general fund nor were notices published to notify customers of their outstanding credit balances.

The lack of customer refunds policies and procedures increases the risk of irregularities or errors.

Recommendations

Develop and implement policies and procedures for handling customer refunds. Ensure that staff are aware and trained of the new customer refund process. In addition, ensure that overpayments are reconciled, validated, and refunded to customers in a timely manner. A supervisor should perform a review of the reconciliation and document the review. Follow the procedures of handling unclaimed over payments outlined in the Government Code Sections 50050 - 50056.

Auditee's Response

Customers commonly over pay their accounts -- many of our customer's homes are vacation or second homes to avoid an interruption in service. The Collection Officer has been working the credit balance accounts since April 2004, to date 212 credit letters have been sent to past customers with credit balances. The District has received 21 responses from customers and reimbursement has been requested. Sixty-nine customer accounts with credit balances less than \$10.00 have been adjusted. We are currently creating cash overage accounts for the Districts as the policy for the County does not apply to the Districts. The procedural documentation for this process was previously provided to your office.

Finding Three: Cash handling procedures could be improved.

County policy requires that:

- Petty cash funds may not be used for employee travel or mileage expenses unless expressly authorized by the Auditor-Controller/Recorder.
- Assets be periodically verified and reconciled.
- Records and audit trails be maintained to allow the validation of transactions.
- Cash overages should be immediately deposited into an overage fund.

The District utilizes the procedures described above. However, in performing test work on petty cash and cash receipts, we noted:

- Three instances where the petty cash fund was used to pay for employee travel and training expenses.
- Staff made an expenditure that exceeded the available cash balance.
- There was one instance where a cash drawer report that helps ensure that cash receipts are intact was missing.
- And, during our cash count on September 10, 2003, we noted cash overages in the Petty Cash Fund and in the Drawer B change fund. Our subsequent review of deposit slips prepared by the District could not confirm that these overages were deposited in the bank.

Because cash handling transactions are not adequately reviewed, errors or irregularities could occur and go undetected.

Recommendations

Follow the policies outlined in the County Internal Controls and Cash Manual for Petty Cash Funds. To ensure that funds are available, the Petty Cash Fund should be reconciled monthly. The bank reconciliation should be reviewed and approved by a supervisor. Document the review and supervisor's approval process. In addition, ensure that sufficient and relevant data are maintained on file to provide an audit trail and to document evidence that a transaction took place. Immediately investigate missing cash drawer reports. Update procedures to prevent this type of error from recurring.

Also, develop and implement policies and procedures that provide reasonable assurance that the District's cash overages in the Petty Cash and Change Funds are tracked and are immediately deposited in the bank. Maintain a cash handling error log to keep track of each cashier's overages or shortages.

For cash shortages and losses, follow the cash shortage procedures outlined in the County's Internal Controls and Cash Manual.

Auditee's Response

All recommendations not in place at the time of this audit related to cash security have been implemented.

The petty cash fund has been moved to the back office equipment room, it is located in a secured safe. Access is limited to fiscal staff and the on-site manager. The petty cash fund is stored in a locked box—keys have been assigned to the fund custodian and the on-site manager—in the safe. The room is alarmed and monitored by video camera. The petty cash fund will continue to be reconciled on a monthly basis and monitored for compliance with the Internal Controls and Cash Manual.

At the time of this audit, daily cash drawer logs were maintained for each cash drawer, in addition to the Front Counter Cash, Daily Register. Two staff members verify each cash drawer at the close of business then submit the Front Counter Cash, Daily Register to the Business Operations Manager for auditing. The Front Counter Cash, Daily Register are logged in by the Filing Clerk, and filed into the District's Journal book. A Cash Overage Fund is being established.

Auditor's Response

The auditee's response did not address the remittance of cash overages. Thus, we reiterate the importance of immediately depositing cash overages in the bank.

Thomas L. Sutton, Director
Special Districts Department
October 31, 2003
Page 6

We appreciate the courtesy extended to us during our audit. We wish to thank the management and staff for their full cooperation during the audit.

Respectfully submitted,

Larry Walker
Auditor/Controller-Recorder

By:

Yolanda T Daugherty
Internal Auditor II

Copies to:

Lisa Manning, Division Chief
Water and Sanitation Division

Quarterly copies to:

County Administrative Officer
Board of Supervisors
Grand Jury (2)

Audit file (3)

Date Report Distributed: 12/16/04

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